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

Department of Health

Resource Accounts 2008-09

(For the year ended 31 March 2009)

Ordered by the House of Commons to be printed 14 July 2009

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Contents

ANNUAL REPORT

SCOPE

1 Departmental Boundary

1.1 These accounts consolidate the financial information of organisations within the Department of Health Departmental Accounting Boundary.

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

1.3 A wide range of organisations lies outside the Departmental boundary but forms part of the Departmental Group. This range includes NHS Trusts, NHS Foundation Trusts, Non-Departmental Public Bodies and those Special Health Authorities that receive their funding direct from trading activities. Note 37 provides a comprehensive list of all organisations within the Departmental Group, indicating those inside and those outside the Departmental boundary.

2 Pension Liabilities

2.1 The transactions and balances of the NHS Pension Scheme are not consolidated in the Department of Health accounts. The report and accounts of the NHS Pension Scheme are prepared separately, reviewed by the Audit Committee of the NHS Business Service Authority (NHS BSA) and signed by the Chief Executive of the NHS BSA who is the Accounting Officer for the scheme. Further information is available on the NHS BSA website: http://www.nhsbsa.nhs.uk/Pensions

2.2 The Department's share of the transactions and balances of the pension scheme which its employees belong to, i.e. the Principal Civil Service Pension Scheme (PCSPS), is also not consolidated in these accounts; separate accounts are prepared for the scheme and details can be found on the following website: http://www.civilservice.gov.uk/pensions

3 Financial Statements and Reporting Cycle

3.1 These accounts cover the period 1 April 2008 to 31 March 2009. They have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under section 7 of the Government Resources and Accounts Act 2000. A copy of this direction is available online, by accessing the HMT website at www.hm-treasury.gov.uk. All financial statements presented in these accounts are audited by the Comptroller and Auditor General (C&AG). The primary financial statements that make up the accounts are:

- a **'Statement of Parliamentary Supply'**. This is the prime Parliamentary accountability statement. It provides a comparison of resource outturn against the Supply Estimate voted by Parliament for each Request for Resources (RfR); a summary of the cash required to finance expenditure; and a summary of income both appropriated-in-aid of expenditure and surrendered to the Consolidated Fund.
- an **'Operating Cost Statement'**. This shows resources consumed by organisations within the Departmental boundary during the year, broken down by Request for Resources and comprising administration and programme expenditure net of income.
- a **'Balance Sheet'**. This shows the assets, liabilities and taxpayers' equity of organisations within the Departmental boundary at the beginning and end of the year.
- a **'Cash Flow'** statement. This shows how cash has been used during the year on or in respect of operating activities, capital expenditure and financing.
- a **'Consolidated Statement of Operating Costs by Departmental Aims and Objectives'**. This shows expenditure allocated to the Department's agreed objectives.

3.2 These statements and the notes that support them have been prepared in accordance with the Government Financial Reporting Manual for 2008-09 (FReM).

3.3 There are no prior period adjustments to the opening balances of these accounts.

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

- **Departmental Report:** This provides a comprehensive overview of spending and investment programmes and of the reforms accompanying this investment. The Departmental Report can be found on the Department of Health website
  www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports
- **Estimates:** The Estimates are the Government's requests for resources from Parliament and are presented annually on the following cycle:
  - Main Supply Estimates start the supply procedure and are presented at the beginning of the financial year to which they relate;
  - Winter Supplementary Estimates are presented in November, and reflect changes to Supply, and the funds that are required by the Department, that have been identified during the year; and
  - Spring Supplementary Estimates are presented in February, and represent the final changes required by the Department.

  Supply Estimates are presented by HM Treasury and can be found on their website:
  www.hm-treasury.gov.uk
- **Autumn Performance Report:** Following on from the Departmental Report, the Autumn Performance Report is usually published in November/December and provides a further update to the progress against the Public Service Agreement targets that are set out in Annex B of the Departmental Report. Publication dates are agreed with HM Treasury. This can again be found on the Department's website www.dh.gov.uk
- **Public Expenditure Outturn White Paper:** This is published by HM Treasury in July. For each Department, this shows provisional expenditure against the Departmental Expenditure Limits and the Administration Cost Limit, which covers Departmental running costs. This is used to determine the level of underspend which can be carried forward for spending in the current or future years. The White Paper can be found on the HM Treasury website: www.hm-treasury.gov.uk

4 Financial Results

4.1 These Accounts show how the Department's activities have been funded and its resources deployed. In summary:

- The Department met each of its financial duties, managing within the resources voted by Parliament and the spending limits set by HM Treasury.
- The Department received funding from two sources:
  - The main source was Parliamentary or Supply funding. In 2008-09, this was £72 billion (within budgets).
  - In addition, the Department received a share of the National Insurance Contributions (NICs), which are accounted for as operating income as per the Financial Reporting Manual (FReM). In 2008-09, this amounted to £18.6 billion (excluded from budgets but included in Parliamentary Estimates).

The Department has no control over the amount of NICs it receives, the level being determined by HM Revenue and Customs from year to year.

Where the Department has excess operating income (appropriations-in-aid) i.e. more income than the expenditure stream it matches, or more income than was anticipated in the Estimate, the surplus is surrendered to Treasury as Consolidated Fund Extra Receipts (CFERs).

The financial results given below are provided on both a resource accounting boundary basis and a budgeting boundary basis. The definitions of these are as follows:

Resource Accounting Boundary
The resource accounting boundary includes: the Department itself, the NHS Purchasing and Supply Agency, those Special Health Authorities not funded by trading activities, Strategic Health Authorities and Primary Care Trusts.

Budgeting Boundary
The budgeting boundary includes those bodies which come within the resource accounting boundary, plus NHS Trusts, NHS Foundation Trusts, Non-Departmental Public Bodies and those Special Health Authorities which receive their funding direct from trading activities.

4.2 Note 37 provides a comprehensive list of all organisations within the Departmental Group, showing those inside and those outside the Departmental boundary.

REVENUE

Revenue expenditure within the resource accounting boundary:

- Net revenue expenditure by organisations within the resource accounting boundary totalled £74,518 million, an increase of £1,950 million or 2.7% compared with 2007-08. This compared with provision for the year of £75,669 million, an underspend of £1,152 million or 1.5%.
- Growth in total net revenue expenditure in 2008-09 was 2.7%. Growth in 2008-09 NHS expenditure was around 6% - in line with the growth in NHS allocations.
- Central expenditure was around £2.7 billion lower in 2008-09 compared to 2007-08, mainly for the following reasons:
  - 2007-08 expenditure included an increase of around £1.5 billion in clinical negligence provisions (largely due to a court case which changed the level of indexation applied in calculating settlements) (see note 21 for further details);
  - 2007-08 expenditure included around £650 million for local authority grants that have now been transferred to the Department for Communities and Local Government.
  - The 2008-09 receipt for National Insurance Contributions was around £1.4 billion higher than in 2007-08

Revenue expenditure within the budgeting boundary:

- Net revenue expenditure within the budgeting boundary totalled £92,138 million, an increase of £3,879 million or 4.4% compared with 2007-08. This compared with provision for the year of £93,682 million, an underspend of £1,544 million or 1.6%.

DEPARTMENT OF HEALTH ADMINISTRATION

- Net expenditure on total Departmental administration was £228 million, a decrease of £7 million or 3.1% compared with 2007-08. This compared with provision for the year of £233 million, an underspend of £5 million or 2.2%.
- Net expenditure on Departmental Administration Cost Limit (ACL) was £220 million, a decrease of £6 million or 2.5% compared with 2007-08. This compared with provision for the year of £222 million, an underspend of £2 million or 0.9%.

CAPITAL

Capital expenditure within the resource budgeting boundary:

- The primary financial control which HM Treasury applies to the overall capital spending of all Government Departments is the Capital Departmental Expenditure Limit (DEL). This covers the Department's own capital spending and spending by all its bodies, however financed
- Total DEL capital provision in 2008-09 was £4,910 million, whilst total net capital expenditure amounted to £4,369 million (an increase in spend by these bodies of £536 million, or 14.0% compared to 2007-08). The total underspend against provision in 2008-09 was £541 million (11.0%)
- The £541 million underspend can be attributed as follows:
  - NHS Bodies: £316 million;
  - DH Central Programmes: £25 million; and
  - Departmental Unallocated Provision: £200 million

Capital expenditure within the resource accounting boundary

- The primary financial control with which Parliament is concerned is the expenditure included in the Parliamentary Estimate. This relates to the capital expenditure incurred by the Department itself, the bodies it directly funds (NHS Purchasing & Supply Agency, those Special Health Authorities not funded by trading activities, Strategic Health Authorities and Primary Care Trusts) plus the net lending (Loans and Public Dividend Capital) to NHS Trusts and NHS Foundation Trusts for capital investment. This differs from the DEL comparison above because it takes in to account the amount the department lends to providers rather than the capital expenditure incurred by those bodies.
- Net capital expenditure by organisations within the resource accounting boundary amounted to £1,264 million in 2008-09, an increase of £257 million, or 25.5%, compared to 2007-08. This compared with provision for the year of £2,409 million, giving rise to an underspend of £1,146 million, or 47.6%.
- Approximately £665 million of the underspend arose because the amount the Department actually lent to NHS Trusts and NHS Foundation Trusts to support capital investment was less than provision. This is because Trusts had sufficient cash from surpluses and reserves to finance their capital investment without resorting to borrowing, thereby ensuring that the exchequer did not incur unnecessary borrowing. The remainder of the underspend related to slippage on central and local spending programmes and unallocated sums.

4.3 Within the public spending framework, underspends can be carried forward for utilisation in future years (known as End Year Flexibility – EYF). Draw-down of EYF must be agreed with Treasury and is subject to scrutiny on the basis of need and realism, and the wider fiscal position.

5 Management and Governance of the Department

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

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

Ministers

5.3 The following Ministers were responsible for the Department in 2008-09:

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

- Ministers of State with responsibilities for the NHS and Social Care, including long term care, disability and mental health:
  - Ben Bradshaw MP, Minister of State for Health Services
  - Rt. Hon Dawn Primarolo MP, Minister of State for Public Health
  - Phil Hope MP, Minister of State for Care Services (from October 2008)

- Parliamentary Under Secretaries with responsibility for Health, Social Care and Public Health:
  - Ann Keen MP, Parliamentary Under Secretary of State for Health Services
  - Lord Ara Darzi, Parliamentary Under Secretary of State
  - Ivan Lewis MP, Parliament Under Secretary of State (until 31 October 2008)

Board Structure and Membership

5.4 The Department of Health is led by a small Departmental Board (DB), chaired by the Permanent Secretary. The DB supports the Permanent Secretary in the discharge of his responsibilities as Principal Accounting Officer, within the framework set by the Secretary of State.

5.5 The Departmental Board Membership at 31 March 2009 is shown below:

Name	**Title**
Hugh Taylor	Permanent Secretary
David Nicholson	NHS Chief Executive
Sir Liam Donaldson	Chief Medical Officer
David Behan	Director General of Social Care, Local Government and Care Partnerships
Richard Douglas	Director General of Finance and Chief Operating Officer
Julie Baddeley	Non Executive member
Derek Myers	Non Executive member
Mike Wheeler	Non Executive member

5.6 The Departmental Board is responsible for:

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

5.7 The Departmental Board is supported by:

- the Corporate Management Board, which is chaired by the Permanent Secretary, and includes all of the Department's Directors General. This Board supports the Permanent Secretary in his personal responsibility for Departmental expenditure and provides leadership for the Department;
- the NHS Management Board, which is chaired by the NHS Chief Executive, and includes Strategic Health Authority Chief Executives and senior staff from the Department. This Board supports the NHS Chief Executive in his responsibility as Accounting Officer for NHS expenditure (RfR1) and provides leadership for the NHS, ensuring effective two-way communication; it manages NHS performance and shapes policy and strategy for the NHS;
- the Audit Committee, which is chaired by, and comprises, non-executive members. The Audit Committee advises the Accounting Officers and the Departmental Board on risk management, corporate governance and assurance arrangements in the Department and its subsidiary bodies;
- the Performance Committee, which is chaired by the Director General for Finance & Chief Operating Officer and monitors performance against Departmental Strategic Objectives (DSOs), Public Service Agreements (PSAs), Value for Money (VfM), critical programmes and projects, and financial targets on behalf of the Department Board; it provides a source of challenge in respect of these to supporting PSA and VfM Boards; and
- the Committee for the Regions, which is chaired by the Director General of Social Care, Local Government and Care Partnerships. The purpose of this committee is to assure the Departmental Board of the delivery of the Department's priorities through its regional presence. Its remit is to hold the Department's regional presence to account for the delivery of the Department's six regional business roles as set out in the Business Planning Guidance 2009-11, and to govern the Department's work to improve the business model for regional delivery of health and well-being.

Remuneration of Ministers and senior officials

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

Appointment of senior officials

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

MANAGEMENT COMMENTARY

6 Departmental aims and objectives

6.1 The Department's overall aim is to improve the health and well-being of the people of England. The Department's medium-term objectives are defined by its Public Service Agreements (PSAs) as determined in each Spending Review (SR).

6.2 A new and streamlined Government approach to PSAs is built around a set of 30 new PSAs, which span departmental boundaries and articulate the Government's highest priority outcomes for the SR period. Each department publishes a set of Departmental Strategic Objectives (DSOs), alongside the smaller, prioritised set of PSAs. This brings together the Government's highest priorities and the wider span of departmental business.

6.3 The 2007 Comprehensive Spending Review (CSR) was settled in September 2007, along with new Departmental Strategic Objectives (DSOs) for the Department of Health. These are:

- to promote better health and well-being for all – this covers the Department's objectives to help people stay healthy and well, empowering them to live independently, and tackle health inequalities;
- to ensure better care for all – this covers the Department's objectives to provide the best possible health and social care services, offering safe and effective care, when and where people need help, and empowering them in their choices; and
- to ensure better value for all – this covers the Department's objectives to deliver affordable, efficient and sustainable services contributing to the wider economy and nation.

6.4 For 2008-09 the Departmental Board agreed nine key priorities for the Department in support of its DSOs:

- delivering our core Department of State functions;
- preparing for a possible influenza pandemic;
- developing the strategy for the reform of social care;
- enabling the local transformation of the NHS;
- reducing health inequalities;
- reducing the burden of lifestyle diseases;
- supporting cross-government work;
- facilitating the delivery of improved value for money; and
- providing high-quality and efficient corporate services

6.5 The Department delivers its objectives by working with Ministers, the NHS, Social Care and other partners through five distinct but inter-related roles:

- setting direction for the NHS, for adult social care and public health;
- supporting delivery;
- leading health and well-being for Government;
- accounting to Parliament and the public; and
- supporting our staff to succeed.

Setting direction for the NHS, for adult social care and public health

6.6 The Department sets direction for the NHS, for adult social care and public health. The Department has general responsibility for standards of health care in the country, including the NHS. The Department sets the strategic framework for adult social care and influences Local Authority spend on adult social care. The Department also sets the direction on promoting and protecting the public's health, taking the lead on issues like environmental hazards to health, infectious diseases, health promotion and education, the safety of medicines and ethical issues.

The Department's work in setting direction includes:

- strategy;
- policy;
- legislation and regulation, including the promotion of Bills through Parliament;
- the NHS Operating Framework; and
- local Area Agreements

Supporting delivery

6.7 The Department is responsible for finding the best way to support and mobilise the health and social care system to deliver improvements for patients and the public. Work in supporting delivery includes:

- performance monitoring and evaluation;
- managerial and professional leadership for external groups;
- building capacity and capability; and
- ensuring value for money for the taxpayer

Leading health and well-being for Government

6.8 The Department leads on the integration of health and well-being issues into cross-Government policies, and the incorporation of wider public policy into health and care services. The Department's work cuts across the public and private sector, local and national Government and internationally, and includes:

- working with the wider public, third and private sectors on issues such as health protection or lifestyle choices, including integrating health and well-being issues into other Government priorities at the local level through the work of our regional teams; and
- working with international partners, including the European Union (EU), World Health Organisation (WHO) and the Organisation for Economic Co-operation and Development (OECD)

Accounting to Parliament and the public

6.9 As a Government Department, the Department of Health is responsible for supporting Ministers in accounting to the public and Parliament. This work includes:

- answering Parliamentary questions - both written and oral - and dealing with other Parliamentary business, debates and enquiries;
- responding to letters, emails, and phone calls from the public and members of Parliament; and
- communicating to the public through the media and through visits and speeches.

Supporting our staff to succeed

6.10 The Department can only meet its objectives through highly skilled and motivated staff, who have the right tools to support them to succeed. Work on supporting our staff to succeed includes:

- the provision of training and development opportunities; and
- the provision of effective and efficient support functions such as IT, HR, accommodation and finance.

6.11 The Department measures its performance in delivering its objectives through a comprehensive performance management system. Key performance indicators in the wider health and social care system are measured and tracked though the appropriate management and programme boards. The performance of the Department itself is reviewed by the Corporate Management Board using a performance scorecard, which includes metrics on delivery, stakeholder feedback, resources and improvement. Target and performance data is obtained in consultation with Directors General and linked to the delivery of Directorate-level operational plans.

6.12 The Department's Performance Committee also monitors performance against Departmental Strategic Objectives (DSOs), Public Service Agreements (PSAs), Value for Money (VfM), critical programmes and projects, and financial targets on behalf of the Departmental Board; it provides a source of challenge on each of these areas to the boards with primary responsibility.

7 Dealing With Risks and Uncertainties

7.1 The Department's high-level risk register is the focal point of overall risk management in the Department. The register is updated and reviewed quarterly by the Departmental Board and the Audit Committee, with supporting Committees and Boards reviewing risks that fall within their responsibilities. The Department's Risk Forum (comprised of Directors from all directorates) also reviews the register and advises the Departmental Board on the risks contained within it.

7.2 The Department has made significant progress this year in terms of improving its policies and procedures for the identification and management of fraud. This work will be completed during the 2009-10 financial year. In particular this year, the Department has:

- reviewed and updated its anti-fraud policy, and developed a fraud response plan, building on the role of Counter Fraud Services;
- clarified roles and responsibilities (especially relating to delegated authorities) in respect of fraud management, and;
- commissioned the internal Assurance Strategy and Audit (ASA) team to undertake a specific fraud risk assessment. The Department intends this assessment to become an annual exercise.

8 Developing the Department

Capability Review and Development Plan

8.1 The Cabinet Office published its Capability Review in June 2007. In response, the Department published its Development Plan in September 2007. The Plan set out the actions needed to address the areas for improvement highlighted during the Department's Capability Review.

8.2 The Development Plan seeks to build capability and capacity across the Department, and ensure proper processes and systems are in place to support staff and deliver key health and social care priorities. The Department's aim is to become a better place to work, better to do business with and more able to deliver high quality services, while demonstrating value for money.

8.3 The Development plan constituted a two-year programme of work, setting out five areas for action:

- establishing a vision and clear strategic direction for the health and care system;
- agreeing the Department's role, values and Business Plan;
- taking a new approach to leadership;
- supporting our staff to succeed; and
- improving the Department's organisation and business processes.

Progress

8.4 Cabinet Office stocktakes at six months (December 2007) and 12 months (July 2008) after the Capability Review acknowledged the good progress that the Department was making. At these interim stages, it was understandable that the Department had further to go in addressing the challenges in some of the areas for action.

8.5 The Department has sustained the improvements in capability and performance that were acknowledged in the 12-month stocktake. An internal assessment at the 18-month stage showed continual progress and the growing impact that the development work was having in the Department; in particular, continued improvement in how staff feel about the Department and the way it treats them. The picture of development looks good, and the Department is now taking forward further work to put it in the best possible position for the Capability re-Review in June 2009.

8.6 The development journey will not end there, however, as the Department aspires to become a continuously improving organisation. The Department will be linking a number of initiatives on organisational development, adaptive change and business efficiencies to help shape the successor to the Development Plan in the second half of 2009, setting its own development agenda for the next two to three years.

Review of the Year

8.7 This section provides a brief review of the Department's activities and achievements during 2008-09. Further information on the Department's performance for the year can be found in the Departmental

Report and the Chief Executive's Annual Report. Both of these are available through the Department's website: www.dh.gov.uk

SETTING DIRECTION

8.8 The Department's Departmental Strategic Objectives (DSOs) are set out in section 6.3.

8.9 Progress against these DSOs is measured using a set of 44 indicators, against which the Department reports on an annual basis. Where relevant, the DSOs and their indicators have been cascaded to both the NHS and Local Government as part of their new performance frameworks. In line with the Department's strategic approach, these indicators have not been cascaded as targets.

8.10 Following on from the 2007 Comprehensive Spending Review (CSR), the Department issued the NHS Operating Framework and allocations for PCTs. The Operating Framework set out five key priority areas: improving cleanliness and reducing healthcare acquired infections; improving access through fulfilling the 18 week pledge; keeping adults and children well, improving their health and reducing inequalities; improving the patient experience, staff satisfaction and public engagement; and preparing to respond in a state of emergency such as pandemic flu.

8.11 *High Quality Care for All,* the final report of the NHS Next Stage Review, set out a vision of an NHS that gives patients and the public more choice, works in partnership and has the quality of care at the heart of everything it does. Central to the Review were the clinicians who fully engaged with their local communities, and examined the best available clinical evidence to identify improvements to health and healthcare within these communities. Their work underpins the ambitious vision for health and healthcare that was published by Strategic Health Authorities in May and June of 2008. *High Quality Care for All* provides the enabling framework to support the delivery of these ambitious local visions. The Department is now taking forward the delivery of the commitments set out in *High Quality Care for All* in a spirit of co-production with the service.

8.12 Beyond the NHS, the Department has also been further developing policy in relation to social care and the wider care system. These developments include:

- the Department preparing to publish a Green Paper on Care and Support on the 30th June 2009, which will address major challenges for the social care system in England: rising demand as the population ages; and rising expectations as people want more personalised and flexible services. This follows publication of *The case for change – Why England needs a new care and support system,* which opened an extensive debate with the public and stakeholders to consider fundamental principles, trade-offs and implications for a new care and support system;

  By January 2009, this public consultation and debate encompassed nearly 40,000 website visits, fourteen events for the public and stakeholders, and over 1,000 written views from people. Work was also conducted to reach those people the Department recognises are often seldom heard in these circumstances. Stakeholders ran over 100 of their own events, worked with the Department on key themes and contributed articles to maintain interest and inspire discussion. The engagement demonstrated a real appetite for change;

- the Department having published the new cross Government Carers Strategy, *Carers at the heart of 21st-century families and communities* in June 2008. This 10-year strategy was signed by seven Secretaries of State across Whitehall and contains a number of short-term and longer-term commitments. In addition to substantial funding to support carers in the past, the Government is now investing over £255 million on new commitments as part of this strategy; and

- the Department launching the *National Dementia Strategy,* which has 17 objectives grouped under the three key themes of: *raising public awareness, improving diagnosis and delivering high quality care*. Implementation of the Strategy will see memory services established throughout the country; improved care in hospitals, care homes and in the community; and better education and training for health and social care professionals. The Strategy is backed by £150 million over 2009-10 and 2010-11.

8.13 Finally, the Department introduced the Health Bill to Parliament on 15 January 2009.

SUPPORTING DELIVERY

8.14 The Department continued to support the health and social care systems in delivering sustainable improvements. In 2008-09 the NHS saw:

- a continuing reduction in the number of cases of MRSA bloodstream infections, with latest quarterly data showing they are down 62% from the baseline. *C.difficile* infections fell by 33% in July-September 2008 when compared to the same quarter in 2007. This indicates that the partnership between the Department, NHS Staff, patients and others is delivering ongoing progress against the commitment to tackling these infections;
- continuing progress towards delivery of a maximum wait of 18 weeks from GP referral to start of treatment with the service attaining the March 2008 milestone of 85% of admitted patients and 90% of non-admitted patients receiving treatment in 18 weeks;
- the successful attainment of the Prime Minister's target that 50% of GP practices provide extended opening hours; this was achieved three months early, in September 2008;
- a strong financial position that provides stability and flexibility to deliver further improvements in the quality and range of patient care;
- the Department exceeded its Gershon efficiency target and put in place an ambitious programme to secure additional value for money savings of £8.2 billion per year by the end of the current Comprehensive Spending Review period (2008-2011);
- increases in public satisfaction with the NHS in Britain. Satisfaction levels are now higher than at any point since 1984 – with 51% reporting that they are "very" or "fairly satisfied", up 17 percentage points since 1997, and 9 points since 2000 (as evidenced from the British Social Attitudes Survey – 25th Report); and
- continued high levels of satisfaction among patients with the quality of treatment and care they receive (as evidenced from the NHS national patient survey programme coordinated by the Care Quality Commission). For example, 78% of inpatients rate their care as "excellent" or "very good" (up 4 points since 2002). Ratings are similarly high among A&E patients (71% - up 5 points since 2003) and ambulance trust category c patients (94% - this is a new survey, so time series data is not available). Results from these surveys also show that the vast majority of patients have confidence and trust in staff, and they feel that staff treated them with respect and dignity.

LEADING HEALTH AND WELL-BEING FOR GOVERNMENT

8.15 In providing leadership across Government on health and well being, the Department:

- launched Change4Life in 2009 - a national movement designed to help parents make healthier food choices for their children and encourage more activity;
- published data which shows that smoking prevalence amongst all adults has fallen to 21%; efforts are continuing to secure these gains, to further reduce rates and to reduce deaths from smoking-related disease;
- launched the F.A.S.T. advertising campaign – an initiative to publicise the early warning signs of suffering a stroke and demonstrate the importance of rapid action; and
- confirmed that alcohol-related death figures have levelled off, following substantial increases over the last 13 years.

ACCOUNTING TO PARLIAMENT AND THE PUBLIC

8.16 The Department continues to be one of the busiest in Whitehall in terms of accountability. In 2008-09 it:

- made good progress in preparing for the transition to International Financial Reporting Standards on 1st April 2009. This change will bring benefits in consistency and international comparability of financial reporting in government; the Department views IFRS as an opportunity to contribute to the continuous improvement in the clarity of the Department's reporting;
- continued working towards faster close of the 2008-09 Resource Account, which will see the Accounts laid before Parliament in July 2009, three months earlier than in past years; this process will improve in-year accounting and demonstrate greater fiscal responsibility;
- published 45 Impact Assessments on the Department's website; 12 Full Final Impact Assessments accompanying regulations were placed in the libraries of both Houses of Parliament;
- completed 196 Equality Impact Assessments in total during this period; 137 screening assessments and 59 full assessments;
- answered almost 1,349 Freedom Of Information (FOI) requests in 2008-09. The Department responded to 89% of these within deadline, including permitted extensions, against a cross-

Government average of 89% (source: Ministry of Justice FOI Annual Report 2008 Publications - Ministry of Justice); and

- answered 7,829 Parliamentary questions and led on 26 Select Committee inquiries and 5 Public Accounts Committee hearings.

SUPPORTING STAFF TO SUCCEED

8.17 The Department's work in this area focussed largely on the Development Plan built around a major programme of staff engagement which was used to help develop the Department's values:

- we value people: we care about people and put their health and well-being at the heart of everything we do;
- we value purpose: we focus our actions and decisions on achieving our shared goals;
- we value working together: we work together as one department and with our partners and stakeholders; and
- we value accountability: we take responsibility and are open to challenge.

8.18 These values have been at the heart of the Department's work during the year and have been used by managers to develop their ways of working and by the Department to test and refine the way it does its business.

Progress in relation to Public Service Agreements targets in 2008-09

8.19 The following table summarises progress against the two Public Service Agreements (PSAs) which the Department leads on, and the six cross-government PSAs which the Department contributes to, delivering health and care indicators, which were agreed as part of the 2007 Comprehensive Spending Review. The Department has put in place strong governance arrangements through a Performance Committee and PSA Boards to monitor progress and drive delivery.

8.20 Our 3 Departmental Strategic objectives (DSOs) are:

- Better Health and Well-being for all
- Better care for all
- Better value for all

The DSOs are underpinned by a set of 44 DSO indicators, of which 27 are also PSA indicators to measure progress against the cross-government PSAs set out below.

	Description	**Progress**
2 PSAs on which the Department leads		
PSA 18	**Promote better health and well-being for all**	**Some progress**
	Deliver the best possible health and well-being outcomes, helping people to live healthier lives, empowering them to stay independent for longer, and tackling inequalities.	**Improvement in 2 (namely 18.1 and 18.3) out of the 5 (namely 18.2, 18.4 and 18.5) indicators.**
	5 supporting indicators are:	
	18.1 All-Age-All-Cause Mortality is a proxy for life expectancy at birth.	
	18.2 Gap in All-Age-All-Cause Mortality is a proxy for life expectancy at birth between spearhead group and England average.	18.2 remains challenging despite life expectancy improving significantly for both spearhead areas and England on average, the relative gap in life expectancy has not narrowed.
	18.3 Smoking prevalence is linked to the SR2004 commitment to reduce adult smoking rates by 21% or more by 2010, with a reduction in prevalence among routine and manual groups to 26% or less.	
	18.4 Number of adults per 100,000 population supported to live independently at home either directly through social care or via organisations that receive social services grants.	18.4 and 18.5 are new indicators.
	18.5 Improving access to psychological therapies through the proportion of people with depression and/or anxiety disorders who are offered psychological therapies.	

PSA 19	**Ensure better care for all**	**Strong progress**
	Ensure that people have high quality, safe and accessible care that is sensitive to their individual health and social care needs and their particular lifestyles and aspirations	**Improvement in 6 (namely 19.1, 19.2 & 19.3, 19.6, 19.7 and 19.8) out of the 8 (namely 19.4 and 19.5) indicators.**
	8 supporting indicators are:	
	19.1 Self-reported experience of patients and users.	
	19.2 (admitted) & **19.3** (non-admitted) To ensure that, by December 2008, no one waits more than 18 weeks from GP referral to the start of hospital treatment (for clinically appropriate patients who choose to start their treatment within 18 weeks). The minimum operational standards that the NHS is expected to deliver against are 90 per cent for admitted patients and 95 per cent for non-admitted patients.	
	19.4 The percentage of women who have seen a midwife or maternity healthcare professional for assessment of health and social care needs, risks and choices by 12 completed weeks of pregnancy.	19.4 and 19.5 are new indicators.
	19.5 Percentage of people with long-term conditions (LTC) supported to be independent and in control of their condition(s).	
	19.6 Patient reported experience of access to GP services	
	19.7 Healthcare-associated infection figures for MRSA	
	19.8 Healthcare-associated infection figures for *Clostridium difficile*	

Cross-government PSAs led by Other Government Departments to which the Department contributes to overall delivery		
PSA12	**Improve the health and well-being of children and young people – DCSF led PSA**	**Not yet assessed**
	Commitment to improve the physical, mental and emotional health and well-being of children and young people from conception to adulthood – for children who are in relatively good health, those particularly vulnerable to poor health outcomes, and those who are disabled, as well as those who are ill. This PSA is led by the Department for Children, Schools and Families (DCSF) – the Department contributes to four of the five indicators chosen to monitor progress against this PSA.	
PSA 13	**Improve children and young people's safety – DCSF led PSA**	**Not yet assessed**
	Commitment to improving safety of the children and young people in this country. This PSA is led by the Department for Children, Schools and Families (DCSF) – the Department contributes to one of the four key indicators.	
PSA 14	**Increase the number of children and young people on the paths to success – DCSF led PSA**	**Not yet assessed**
	Commitment to increasing the chances of children and young people through education and health. This PSA is led by the Department for Children, Schools, and Families (DCSF) – DH contributes to one of the five key indicators.	
PSA 16	**Increase the proportion of socially excluded adults in settled accommodation and employment, education or training – CO led PSA**	**Not yet assessed**
	Commitment to ensuring that the most vulnerable adults are offered the chance to get back on a path to a more successful life, by increasing the proportion of socially excluded adults in settled accommodation and in employment, education or training. This PSA is led by the Cabinet Office (CO)– the Department contributes to four of the eight key indicators.	
PSA 17	**Tackle poverty and promote greater independence and well-being in later life – DWP led PSA**	**Not yet assessed**
	Focus on the quality of later life in the UK, seeking to make the most of the opportunities offered by longer life, and driving forward the necessary cultural and behavioural changes. This PSA is led by the Department for Work and Pensions (DWP) – the Department contributes to two of the five key indicators.	
PSA 25	**Reduce the harm caused by alcohol and drugs - HO led PSA**	**Not yet assessed**
	Commitment to produce a long-term sustainable reduction in the harms associated with alcohol and drugs. This PSA is led by the Home Office (HO) - the Department contributes to two of the five key indicators.	

For more information about the individual measures and data quality, see the Department of Health's 2008 Annual Performance Report and Departmental Report 2009 on the Department's website www.dh.gov.uk

Forward Look

8.21 The Department's Business Plan for 2009-10 has been framed within the context of the outcome of the 2007 Comprehensive Spending Review and the Department's Capability Review and subsequent Development Plan. Within this framework the Department's priorities can be grouped into the following broad categories:

BETTER HEALTH AND WELL-BEING FOR ALL

- Creating a fairer society through enabling local services to reduce health inequalities;
- engaging with citizens to co-produce better health and well-being outcomes;
- contributing to world class science and innovation;
- preparing for a flu pandemic; and
- working with and through the Department's delivery partners at a central, regional and local level to influence the wider determinants of health and well-being.

BETTER CARE FOR ALL

- Enabling the local delivery of the changes needed to deliver high quality care for all across the NHS;
- supporting and embedding the new system for regulation across the NHS and social care systems; and
- delivering the Department's commitments on the reform of social care through the Care and Support green paper.

BETTER VALUE FOR ALL

- Enabling the NHS and social care to identify and realise local potential areas for improving value for money.

IMPROVING DEPARTMENTAL CAPABILITY

Developing Departmental capability to meet current and future objectives, improve efficiency and strengthen leadership by:

- sustaining an effective stakeholder, partner and Other Government Department engagement strategy including induction, training and development through to front line engagements;
- embedding the use of evidence and analysis in policy-making, including improved training and development, more effective engagement with delivery chain stakeholders and partners in planning the implementation of policy, impact assessments, consistent integration of policy and policy prioritisation; and
- leading and managing the Department effectively to support staff to develop and succeed.

MINISTERIAL SUPPORT AND ACCOUNTABILITY

- continuously and measurably improving the service the Department provides to Ministers; and
- improving the quality, timeliness and transparency of the Department's external reporting.

8.22 Further detail can be found in the Department of Health Business Plan on the Department's website: www.dh.gov.uk

9 Use of Financial Resources

Revenue expenditure

9.1 Across the three Requests for Resources, the Department underspent in 2008-09 by a total of £1,152 million against a total resource provision of £75,669 million. Table one shows the breakdown of the under spend by RfR.

Table One - 2008-09 Overall Revenue Spending Approved by Parliament

Expenditure Type	Provision	Outturn	Under/ (over) Spend
	£m's	£m's	£m's
Request for Resources 1			
Securing health for those who need it	72,194	71,434	759
Request for Resources 2			
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health	3,460	3,068	392
Request for Resources 3			
Office of the Independent Regulator for NHS Foundation Trusts	16	16	0
Total Resources	**75,669**	**74,518**	**1,152**

1) Figures may not sum due to rounding

9.2 Within the centrally managed programmes, the significant variations are shown in Table Two below and also reported under Note 2. It should be noted that the underspend against Request for Resources 2 (RfR2) does not relate to underspends in investment in Social Care and Child Protection. The underspend is mainly as a result of increased estimate provision to mitigate potential foreign exchange risks in the European Economic Area Medical costs budget.

Table Two: Significant Variations on Centrally Managed Programmes

Estimate line	Estimate Line Description	Estimate £m's	Outturn £m's	Variance £m's	Explanation
Request for Resources 1					
A	Strategic health authorities and primary care trusts unified budgets and central allocations	89,518	88,974	544	Mainly the net underspend in PCTs and SHAs
F	Strategic health authority and primary care trusts grants to local authorities	291	196	94	Lower than planned expenditure on local authority grants.
G	Hospital financing for credit guarantee finance (CGF) pilot projects, benefits for patients moved from prison to hospital and certain health authority and primary care trust impairments	136	75	61	Lower than planned expenditure on impairments
Request for Resources 2					
B	NHS Purchasing and Supplies Authority (PASA)	29	36	(6)	The Spring Supply estimate provision did not include PASA expenditure supported by DH income.
D	Welfare Food and European Economic Area and other countries Medical costs	1,077	699	378	This estimate line covers Welfare Foods and European Economic Area Medical (EEA) costs, both of which are demand-led. Expenditure on EEA medical costs is highly volatile due to its demand led nature and risks of foreign exchange movements. Given the volatility of foreign exchange rates at the time of preparation, the estimate provision was based on a prudent assessment of risks.
L	Common Assessment Framework	11	-	11	The unexpectedly high volume of grant applications made it difficult to finalise awards in 2008-09.

1) Figures may not sum due to rounding

9.3 The total expenditure for which the Department is responsible includes not only voted sums but spending by organisations outside the resource accounting boundary. In 2008-09 the Department was responsible for managing a total resource budget of £93,682 million and total resource spending was £92,138 million.

Table three below reconciles total resource spending to the net resource outturn shown in table one above.

Table Three: Revenue Reconciliation between Estimates, Accounts and Budgets

	2008-09 £m's	2007-08 £m's
Net Resource Outturn (Estimates)	74,518	72,568
Adjustments to remove:		
Provision voted for earlier years		
Adjustments to additionally include:		
Non-voted expenditure in the OCS		
Consolidated Fund Extra Receipts in the OCS	(339)	(21)
Other Adjustments		
Net Operating Cost (Accounts)	74,178	72,547
Adjustments to remove:		
Capital Grants to Local Authorities and Third Parties	(258)	(360)
Capital Grants financed from the Capital Modernisation Fund		
European Union income and related adjustments		
Profit & (Loss) on disposal	1	
Voted expenditure outside the budget (mainly National Insurance Contributions)	19,734	17,904
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts		
Resource consumption of Non Departmental Public Bodies	503	490
Other adjustments (mainly Trust and Foundation Trust surplus before interest and dividends)	(1,646)	(1,773)
Unallocated resource provision		
Resource Budget Outturn (Budget) of which;	92,513	88,808
Departmental Expenditure Limit (DEL)	92,138	88,259
Annually Managed Expenditure	375	549

1) Figures may not sum due to rounding

9.4 The principle reason for the difference between net resource accounting expenditure and net budgeting boundary expenditure is the receipt of National Insurance Contributions (NICs) (around £18.6 billion). National Insurance Contributions are treated as operating income as per the FReM but are excluded from budgets. The Department does not have any control over the amount of NICs it receives, the level being determined by HM Revenue and Customs.

9.5 The primary financial control that HM Treasury applies to the Department is the Departmental Expenditure Limit (DEL). Table Four provides a breakdown of 2008-09 Revenue DEL performance across the main Department of Health spending sectors.

Table Four: 2008-09 Revenue DEL Position by Sector

	2008-09 DEL Under/(over) Spend £m's
2008-09 Total Revenue DEL Provision	**93,682**
2008-09 Revenue DEL expenditure	**92,138**
2008-09 Revenue DEL underspend	**1,544**
2008-09 Revenue DEL Underspend as a % of Provision	**1.6%**
Breakdown of 2008-09 Revenue DEL underspend:	
NHS Bodies (Primary Care Trusts, Strategic Health Authorities, NHS Trusts and Foundation Trusts)	*2,050*
Central Programme	*(508)*
Central Administration	*2*

1) Figures may not sum due to rounding

9.6 In this sector presentation, the notional central over-commitment of £508 million is due to:

- 2007-08 PCT and SHA underspends repaid in 2008-09 without drawdown of end year flexibility (EYF) from Treasury;
- offset by surplus resources, for example from the departmental unallocated provision.

In accordance with HM Treasury's guidance *Managing Public Money*, departments are required to produce taut Parliamentary estimates and are only able to access end year flexibility on the basis of realism and need. It was not necessary to draw down EYF in 2008-09 as there was sufficient surplus within the NHS to meet the Department's overall spending control.

9.7 Within the Revenue DEL control is a further financial control for Departmental Administration, known as the Administration Cost Limit (ACL). Net expenditure on Departmental ACL was £220 million, compared with a provision of £222 million, an underspend of £2 million or 0.9%. The total administration costs in the resource account amount to £228 million, compared to a provision of £233 million. In addition to ACL expenditure, total administration includes around £8 million for other costs, mainly related to spend on frontline or in support of frontline services.

Expenditure Type	Provision	Outturn	Under/ (over) Spend
	£m's	£m's	£m's
Administration cost limit	222	220	2
Other administration	11	8	3
Total Resources	**233**	**228**	**5**

1) Figures may not sum due to rounding

Capital Expenditure

9.8 Across the two Requests for Resources the Department underspent in 2008-09 by a total of £1,146 million on total provision of £2,409 million. Table Five shows the breakdown of the under spend by RfR .

Table Five: 2008-09 Overall Capital Spending Approved by Parliament

Expenditure Type	Provision £m's	Outturn £m's	Under/ (over) Spend £m's
Request for Resources 1			
Securing health for those who need it	2,371	934	1,438
Request for Resources 2			
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health	38	21	16
Net movement in debtors/creditors	-	309	(309)
Total Resources	**2,409**	**1,264**	**1,146**

1) Figures may not sum due to rounding

9.9 Significant variations in capital expenditure within the Resource Accounting Boundary are shown in Table Six below.

Table Six: Significant Variations on Centrally Managed Programmes

Estimate Line	Estimate Line Description	Estimate £m's	Outturn £m's	Variance £m's	Explanation
Request for Resource 1					
A	Strategic health authorities and primary care trusts unified budgets and central allocations	1,658	1,195	463	Mainly underspends on central programmes. This underspend also includes the provision for capitalised stock as per the 2007 Spending Review.
H	Grant in aid to Non-departmental Public Bodies, NHS Trusts and Foundation Trusts PDC issues and repayments, Foundation Trusts loans and repayments and repayment of interest	700	35	665	The underspend was because of the availability of internal cash (generated from improved revenue positions), early repayment of working capital loans and capital slippage.

1) Figures may not sum due to rounding

9.10 As with revenue expenditure, the Department is responsible for capital spending by organisations outside the resource accounting boundary. Table Seven below reconciles this total capital expenditure to the total capital resources approved by Parliament shown in Table Five.

Table Seven: Capital Reconciliation between Estimates, Accounts and Budgets

	2008-09 £m's	2007-08 £m's
Net Capital Outturn (Resource Account)	**1,264**	**1,007**
Adjustments to remove:		-
(Gains) /losses from sale of capital assets	(1)	(6)
Adjustments to additionally include		-
Capital spending by non departmental public bodies	-	90
Capital grants	258	360
Supported capital expenditure (revenue)		50
Other adjustments (capitalised stock as per 2007 Spending Review settlement agreement)	207	-
Capital expenditure of NHS Trusts and FTs	2,690	2,480
Less net PDC and loans to trusts and FTs	(35)	(111)
Capital Budget Outturn (Budget) of which;	**4,383**	**3,870**
Departmental Expenditure Limit (DEL)	4,369	3,833
Annually Managed Expenditure	14	37

1) Figures may not sum due to rounding

9.11 Table Eight provides a breakdown of 2008-09 Capital DEL performance across the main Departmental spending sectors.

Table Eight: 2008-09 Capital DEL Position by Sector

	2008-09 DEL Under(over) Spend £m's
2008-09 Total Capital DEL Provision	4,910
2008-09 Capital DEL expenditure	4,369
2008-09 Capital DEL underspend	541
2008-09 Capital DEL Underspend as a % of Provision	11.0%
Breakdown of 2008-09 Capital DEL underspend:	
NHS Bodies (Primary Care Trusts, Strategic Health Authorities, NHS Trusts and Foundation Trusts)	*316*
Central Programme	*25*
Departmental Unallocated Provision	*200*

1) Figures may not sum due to rounding

10 Public Interest and Other Issues

Public Dividend Capital

10.1 Public Dividend Capital (PDC) represents Government investment in NHS Trusts and NHS Foundation Trusts. PDC is recorded on the balance sheet of NHS Trusts and NHS Foundation Trusts and is an asset of the Consolidated Fund.

10.2 The rules governing PDC for NHS Trusts and NHS Foundation Trusts are laid out in the NHS Act 2006. This sets out the use of PDC as originating capital for NHS Trusts and initial PDC for NHS Foundation Trusts. It also sets out the powers the Secretary of State has in determining the conditions under which PDC is issued to NHS Trusts, namely, with the consent of the Treasury, the Secretary of State may determine:

- the dividend which is payable at any time on any Public Dividend Capital issued, or treated as issued, to an NHS Trust under this Act;
- the amount of any such Public Dividend Capital which must be repaid at any time; and
- any other terms on which any Public Dividend Capital is so issued, or treated as issued.

10.3 The NHS Act 2006 also sets out how initial PDC is determined for NHS Foundation Trusts and the powers the Secretary of State holds in determining terms under which PDC is treated as having been issued and the dividend payable. Both NHS Trusts and NHS Foundation Trusts are required to pay a PDC dividend to the Department. This is currently set as 3.5% of the estimated average net relevant assets of each NHS Trust and NHS Foundation Trust. The 3.5% return the Department of Health makes on its consolidated balance sheet is calculated with reference to the actual average net relevant assets taken from the underlying accounts of those bodies.

Employment of Disabled Persons policy

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

Equal Opportunities policy

10.5 The Department of Health is committed to treating all staff fairly and responsibly. The aim of the Department's Equal Opportunities Policy is to promote equality of opportunity, whereby no employee or job applicant is discriminated against either directly or indirectly on such grounds as race, colour, ethnic or national origin, sex, marital status, responsibility for children or other dependants, disability, age, work pattern, sexual orientation, gender reassignment, Trade Union membership or activity, religion or belief. Line managers are responsible for promoting equal opportunities within their own work teams and for ensuring business compliance with equal opportunities legislation.

Sickness absence data

10.6 The core Department of Health sickness absence data is provided in the table below. NHS organisations record sickness absence data in their published accounts.

2008-09

	Days Lost (short Term) Headcount Days	Days Lost (Long Term) Headcount Days	Total Days Lost (12 month Period)	Total Staff Years	Average Working Days Lost	Total Staff Employed in Period Headcount	Total Staff Employed in Period with no sickness absence Headcount	% Staff with no sickness absence Headcount
Core Department	5,455	6,487	11,942	2,346	5.1	2696	1423	53

The total staff employed in period figure above is the number of people employed and not whole time equivalents.

Payment of Suppliers

10.7 The Department complies with the CBI prompt payment code and the British Standard on prompt payment. The Department is a signatory to the Government's Prompt Payment Code. The Department's policy is to pay bills as soon as possible in accordance with the Prime Minister's commitment made in October 2008.

10.8 In 2008-09 the core Department paid 99.52% of bills (2007-08 - 99%) and 184,418 invoices (2007-08 - 211,927) in accordance with the 30 day policy. In the same period, the core Department paid 95.77% of bills in accordance with the new 10-day policy. The prompt payment performance of other members of the Departmental family can be found in their published annual accounts.

External auditor

10.9 The resource accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General. As far as the Accounting Officer is aware, there is no relevant audit information of which

the Department's auditors are unaware, and the Accounting Officer has taken all the steps necessary to make him aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

10.10 The Department of Health paid the NAO a non-audit fee of £2,000 plus VAT for the audit of European Centre Monitoring for Drugs and Drug Addiction.

Provision of information to, and consultation with, employees

10.11 The Department has a series of communication channels in place to communicate organisational and business developments to staff, and to provide an opportunity for feedback, both at a corporate and local level. The channels used range from timely electronic communications to face-to-face briefings by Corporate Management Board members and the Department's senior managers. The Department also works in partnership with the Departmental Trade Unions through consultation and negotiation to encourage involvement and build engagement in decision-making processes.

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

10.12 Other than those disclosed in Note 34, there are no company directorships or significant interests held by Board members.

Data Loss Incidents

10.13 There were no instances of personal data loss in the Core Department. NHS organisations record data loss incidents in their individual published accounts.

Contingent Liabilities

10.14 Note 32 to the Accounts states that the Department has £96.4m of contingent liabilities which are disclosed under parliamentary reporting requirements but which are not disclosed under Financial Reporting Standard 12 (FRS12) as the likelihood of payment resulting is remote.

In addition to these quantifiable indemnities, there are a further 26 unquantified indemnities. These indemnities mainly relate to potential legal action against organisations or individuals. The Department monitors the potential risks relating to these remote contingencies.

In addition, the Department has reported operational contingent liabilities under FRS12 as shown in Note 31.

Policy and achievement on environmental matters

10.15 The Department, as a Department of State, has a role to play in helping Government set an example by changing what is bought, how energy is used and how the environment is impacted.

10.16 The Department is working with DEFRA and other Government Departments on the working groups in the *Adapting to Climate Change (ACC)* programme. The outputs of this programme will be published later this year, setting out the Government's programme of action on climate impacts.

10.17 The Department is supporting the development of programmes to take systematic action on preparing for climate change through service planning, resilience and workforce awareness. This included a new workforce initiative to address climate change, Climate Connection, which was launched in December 2008. The Department has established the NHS Sustainable Development Unit, and is working with them to develop an awareness, advocacy and action package on climate change for the NHS. In combination, these set out a vision of the role for a more systematic approach to tackling climate change by equipping the workforces to take action on both reducing emissions and on preparing for climate change. For the NHS and local government this would include: adapting the health and social care infrastructure (hospitals, nursing homes) to be more resilient to the environmental effects of climate change, eg adverse temperatures, gales and floods; through development of local 'Heatwave', 'Gale' and 'Flood' plans for coping with disasters; and increasing awareness of how people can adapt to changes in climate.

10.18 The Department is now a partner of *'LWCC' (Living with Climate Change),* which is a consortium across Research Councils and Government Departments. Policy research needs are being fed into the LWCC work, to avoid duplication.

10.19 A *National Heatwave Plan*, which was first launched in 2004, is updated yearly based upon the latest available evidence. This contains guidance for the health and social care sector on protecting vulnerable people from the effects of heat and on how local authorities can keep urban areas cool.

10.20 The Department produced various guidance documents with the Health Protection Agency (HPA) and its Health Emergency Preparedness Division on dealing with disruptive challenges and managing incidents including from flooding.

10.21 The final version of the *NHS Carbon Reduction Strategy* was launched in January 2009 and sets out ways in which reduction targets can be achieved. The plans cover many aspects of patients' care, from building design to transport, waste, food, water and energy use.

10.22 The UK proposed a resolution on *'Climate Change and Health,'* which was accepted by the World Health Executive Board and agreed at the World Health Assembly in May 2008. The aim is to raise awareness of the health implications of climate change among health ministries and professionals, and to promote practical and sustainable action nationally and internationally to respond to these.

Sustainable Development Activities

SUSTAINABLE DEVELOPMENT ACTION PLAN

10.23 As required by the Sustainable Development Commission (SDC), the Department published its annual Sustainable Development Action Plan (SDAP) for the period September 2007 to 31 December 2008. This recorded the Department's commitment to sustainable development activity in terms of operations, procurement, people and policies. The Department published a progress report on each of these areas in June 2009, and this self-assessment showed that the Department has made good overall progress. The progress report is available on the Department's website at www.dh.gov.uk.

SUSTAINABLE OPERATIONS

10.24 In common with all other Government Departments, the Department continues to work towards achieving the *Sustainable Operations on the Government Estate (SOGE)* targets issued in 2006. These targets cover carbon emissions from offices and transport, natural resource protection, sustainable production and consumption and procurement. Data collected annually by the SDC indicates that in most areas the Department will meet all these targets by the due dates.

10.25 During the past year, the Department has worked closely with the *Carbon Trust*, and in Spring 2009 will embark on a full *Carbon Management Programme* for the core Department and a number of the Department's Arms Length Bodies. Both a strategy and action plan for 'Greening IT' has been developed, with implementation of the various projects and initiatives taking place during 2009-11.

SUSTAINABLE PROCUREMENT

10.26 In 2008, the Department launched its new Business Management System (BMS), which brings together Human Resources, procurement and finance information into a single integrated system. Significant staff training was undertaken to ensure smooth operation of the new system. By introducing BMS, the Department has greater visibility over its procurement and contracting activity, thus enabling the Procurement Centre of Expertise (PCOE) to identify opportunities to improve the sustainability of contracting activity and to manage further demand in line with sustainable development principles.

DELIVERING SUSTAINABLE DEVELOPMENT IN THE NHS

10.27 The Department's Energy and Sustainability Capital Fund (£100million) has been allocated and it is anticipated that this will produce significant revenue and carbon savings for the NHS. For example, with regards to NHS Trusts £98.411 million was allocated within the timeframe available and this is calculated to generate annual revenue savings (based on 2007-08 energy costs) of £13.706 million per annum and savings of over 126,000 tonnes CO2/annum.

10.28 The Department's Business Case policy and procedures for capital procurement schemes, both public and private, have been updated to include the *Building Research Establishment's Environmental Assessment Method (BREEAM) for Healthcare* requirements for new builds and refurbishment.

10.29 *The Carbon Trust* are entering the third phase of the *NHS Carbon Management Programme*; the NHS SD Unit will continue to provide the leadership and mechanisms to support the NHS in working towards addressing the *NHS Carbon Reduction Strategy.*

PEOPLE

10.30 The Department's Health & Well-being Board was established in Summer 2008 and the Health & Well-Being policy for Department staff was published in December 2008. This has been complemented by an extensive range of initiatives designed to promote health and well-being, including policies relating to mental health and volunteering. In addition, the Department has incorporated Sustainable Development into its staff induction programmes, as well as embedding it into Professional Skills for Government (PSG), which now forms a key component of the Gateway Recruitment.

DEPARTMENT OF HEALTH SUSTAINABLE DEVELOPMENT STRATEGY

10.31 The Department's SD strategy *(Taking the long-term view: The Department of Health Strategy for Delivering Sustainable Development 2008-11)* was published in October 2008. It builds on work already done and gives a strategic focus to the Department's future sustainable development plans. It sets out the opportunities the Department has to promote sustainable development, both as leader of the health and social care system and Government lead for public health and well-being, and in its role as a Government Department and employer.

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9 July 2009
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Publications List

HMT Direction for Accounts
http://www.hm-treasury.gov.uk/d/accounts_direction_guidance.pdf

Department of Health Departmental report 2009
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports

HMT Supply Estimates
http://www.hm-treasury.gov.uk/psr_estimates_mainindex.htm

Department of Health Autumn Performance Report
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_091854

HMT Public Expenditure White Paper
http://www.hm-treasury.gov.uk/pespub_pesa08.htm

Chief Executive Report to the NHS
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_099689

Finance Directors report to SofS on NHS financial Performance Quarter 4
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsStatistics/DH_100193

Annual Report of the Chief Medical Officer: On the state of Public Health
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports/DH_096206

The NHS Operating Framework 2008-09
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_081094

The NHS Operating Framework 2009-10
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_091445

STATEMENT OF PRINCIPAL ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

3. HM Treasury has appointed the Permanent Secretary of the Department as Principal Accounting Officer of the Department with overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General. In preparing the accounts, the Principal Accounting Officer is required to comply with the Financial Reporting Manual, prepared by HM Treasury, and in particular to:

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

4. In addition, HM Treasury has appointed:

- the Chief Executive of the NHS as an Additional Accounting Officer to be accountable for expenditure on hospital and community health services, family health services, some central health services, the drugs bill and NHS Trusts' external financing; and
- a separate Accounting Officer to be accountable for the NHS Pension Scheme and NHS compensation for premature retirement scheme Resource Account. These are produced and published as a separate account.

These appointments do not detract from the Permanent Secretary's overall responsibility as Accounting Officer for the Department's accounts.

5. The responsibilities of an Accounting Officer, including responsibility for regularity and accounting accurately for their organisation's financial position and transactions are set out by HM Treasury in *Managing Public Money*.

REMUNERATION REPORT

Remuneration Policy

1. The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

2. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

3. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on Departments to meet the output targets for delivery of Departmental services;
- the funds available to Departments as set out in the Government's Departmental expenditure limits; and
- the Government's inflation target.

4. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

Remuneration of Board Members and Directors General

5. The remuneration of the Permanent Secretary, the Chief Executive of the NHS and the Chief Medical Officer is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. Departments are given discretion in some areas to adapt the pay system to local needs under the auspices of a Departmental Senior Pay Strategy Committee and to produce an annual senior pay strategy agreed by the Committee. The strategy document sets out how the system operates in the Department. In 2008, the Senior Pay Strategy Committee was chaired by Hugh Taylor (Permanent Secretary). The other members were David Nicholson (NHS Chief Executive), Sir Liam Donaldson (Chief Medical Officer), Julie Baddeley (Non Executive Director), Harbhajan Brar (Director of Human Resources), Simon Reeve (FDA) and Kent Woods (Chief Executive, Medicines and Healthcare Products Regulatory Agency - MHRA).

6. For awards made from 1 April 2008, the average basic pay award for members of the SCS was 2.5% of the existing paybill for such staff.

7. The remuneration of Directors General is determined by a pay committee in accordance with the rules set out in the Civil Service Management Code (Chapter 7.1, Annex A). In 2008 the relevant Committee was chaired by Hugh Taylor (Permanent Secretary). The other members were David Nicholson (NHS Chief Executive), Sir Liam Donaldson (Chief Medical Officer), Derek Myers (Non-Executive Member) and Harbhajan Brar (HR Director).

8. In the cases of the four inward secondees who served as Directors General, various remuneration arrangements apply. One of the secondees (Bruce Keogh) is subject to SCS terms and conditions regarding pay and his pay is determined in the same way as the civil servants who are permanent employees of the Department. Bruce Keogh remains a member of the NHS Pension Scheme. The pay of Mark Britnell and David Flory is determined in accordance with the Pay Framework for Very Senior Managers (VSMs) in the NHS which falls under the remit of the Senior Salaries Review Body. Any non consolidated performance pay payable to these two members of staff is subject to recommendation from the Department's Pay Committees. As a Doctor, the remuneration of Sally Davies is subject to recommendation from the Doctors' and Dentists' Review Body.

Service Contracts

9. Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at http://www.civilservicecommissioners.gov.uk

10. Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme available on the civil service website, www.civilservice.gov.uk.

A - DEPARTMENTAL BOARD MEMBERS AND CORPORATE MANAGEMENT BOARD MEMBERS

11. This Remuneration Report covers Ministers, non-Executive Directors and all officials sitting on the Departmental Board (DB) or the Corporate Management Board (CMB). The following elements of the Remuneration Report are subject to audit:

- Salaries (including non-consolidated performance pay) and allowances
- Compensation for loss of office
- Non-cash benefits
- Pension increases and values
- Cash Equivalent Transfer Values (CETV) and increases
- Amounts payable to third parties for the services of senior managers.

In the 2007-08 Remuneration Report, all staff at Director General level and above were reported on, and not just officials sitting on the DB or CMB, which explains why some staff have not been included in this years report.

12. The following table details the dates of appointment, and where appropriate departure of the 16 officials covered by this report. 11 held permanent Senior Civil Service contracts during this period, one held a fixed term contract and four were seconded into the Department.

Individual	**Job Title**	**Date of Appointment to Grade/Departure**	**Employing Authority (if Seconded)**
SCS Contract			
Christine Beasley	Chief Nursing Officer	19 October 2004	
David Behan*	Director General of Social Care, Local Government and Care Partnerships	29 August 2006	
Clare Chapman	Director General of Workforce	3 January 2007	
Christine Connelly	Director General – Chief Information Officer	22 September 2008	
Sir Liam Donaldson*	Chief Medical Officer	21 September 1998	
Richard Douglas*	Director General of Finance and Chief Operating Officer	1 May 2001	
David Harper	Director General of Health Improvement and Protection	14 October 2003	
Sian Jarvis	Director General of Communications	1 April 2004	
David Nicholson*	NHS Chief Executive	1 September 2006	
Una O'Brien	Director General of Policy and Strategy	1 October 2007	
Hugh Taylor*	Permanent Secretary	18 December 2006	
Secondments			
Mark Britnell	Director General of Commissioning and	1 June 2007	South Central

	System Management		Strategic Health Authority
Sally Davies	Director General of Research and Development	1 May 2005	North West London Hospitals Trust
David Flory	Director General of NHS Finance, Performance and Operations	1 June 2007	NHS North East
Bruce Keogh	NHS Medical Director	12 November 2007	UCL Hospitals NHS Foundation Trust
Fixed Term Appointment			
Chan Wheeler	Director General of Commercial Directorate	18 June 2007/departed 15 July 2008	

*DMB members as at 31 March 2009

13. Table 1 provides details of remuneration interests of DB and CMB members (provided on page 29).

14. Table 2 provides details of pension interests of DB and CMB members (provided on page 30).

Salary

15. 'Salary' includes gross salary; performance pay or non consolidated performance pay; overtime; reserved rights to London Weighting or London allowances; and any other allowance to the extent that it is subject to UK taxation.

Non-Consolidated performance pay

16. Variable pay awards paid during the period 2008-09 were made in respect of performance for the year 2007-08. Individual non-consolidated performance pay awards were categorised into four tranches depending on performance during 2007-08 and ranged from 0% to 15% of base pay. For performance year 2008-09 the Permanent Secretary, NHS Chief Executive and Chief Medical Officer have agreed to forego voluntarily their non-consolidated performance pay in line with Permanent Secretaries in other Government Departments.

Benefits in Kind

17. The monetary value of benefits in kind covers any payments (for business expenses or otherwise) or other benefits provided by the Department which are treated by HM Revenue & Customs as a taxable emolument. For its direct employees, the Department pays the individual a net sum and pays tax directly to HMRC.

18. Four members received payments deemed by the HMRC to be benefits in kind. In line with Departmental policy, David Nicholson is re-imbursed for extra costs of living away from his home base. David Nicholson is based in Leeds and the payment covers the cost of rent and related expenses for staying in London where he has an office and is required to spend several days each week. Reimbursement only covers rent and associated expenses such as utilities and excludes meals. All claims for reimbursement must be evidenced in line with Departmental policy. In 2008-09 David Nicholson was re-imbursed a total of £27,923.

19. When Chan Wheeler was appointed his contract included payment of a relocation allowance and re-imbursement of rent and related expenses. In 2008-09 Chan Wheeler was reimbursed a total of £20,903.

20. During 2008-09, Mark Britnell was seconded into the Department from South Central SHA. When he was appointed to South Central he became entitled to a relocation allowance in accordance with the SHA's policy and on his secondment the Department took on responsibility for this liability. The total payment was £24,954, and facilitated a permanent move in accordance with NHS South Central's removal and associated expenses policy.

21. David Flory has the benefit of a lease car under NHS North East Strategic Health Authority's family lease car salary sacrifice scheme. Even though the car is not for work use there is a benefit in kind of £802.

Civil Service Pensions

22. Pension benefits are provided through the Civil Service pension arrangements. From 30th July 2007, civil servants may be in one of four defined benefit schemes; either a "final salary" scheme (classic, premium or classic plus); or a "whole career" scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

23. Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31st March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is upated in line with RPI. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

24. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

25. The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

26. Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

27. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real Increase in CETV

28. This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and, in the case of the Civil Service pension scheme, uses common market valuation factors for the start and end of the period.

29. For members of the Principle Civil Service Pension Scheme (PCSPS) and the NHS pension scheme, the factors used in calculating CETVs were updated in October 2008. In order to provide a valuation on a common basis, the PCSPS has revalued the closing 2007-08 CETV. As a result of this the opening CETV of the 2008-09 calculations is likely to be different to the closing CETV from the 2007-08 calculations. The effect of this

change is to provide a CETV increase which is based on common factors applied at the start and end period. By contrast, the NHS pension scheme did not revalue the closing 2007-08 figure and this explains why the increases in CETV are significantly larger for the NHS pension scheme members in the report.

The following tables are subject to audit.

Table 1 - Remuneration interests of DB and CMB Members

	2007-08				2008-09			
	Salary (inc non-consol perf pay[3])	Full Year Equivalent Salary (inc non-consol perf pay[3])	Benefit in Kind (gross)	Benefit in Kind (net)	Salary (inc non consol perf pay[5])	Full Year Equivalent Salary (inc non consol perf pay[5])	Benefit in Kind (gross[8])	Benefit in Kind (net[8])
	£ '000	£ '000	nearest £100	nearest £100	£ '000	£'000	nearest £100	nearest £100
Christine Beasley	155-160	155-160	Nil	Nil	155-160	155-160	Nil	Nil
David Behan	180-185	180-185	Nil	Nil	200-205	200-205	Nil	Nil
Mark Britnell[1, 6]	190-195	225-230	Nil	Nil	235-240	235-240	31,900	25,000
Clare Chapman	240-245[4]	240-245[4]	Nil	Nil	265-270[4]	265-270[4]	Nil	Nil
Christine Connelly	N/A	N/A	N/A	N/A	100-105	195-200	Nil	Nil
Sally Davies[1]	N/A	N/A	N/A	N/A	225-230	225-230	Nil	Nil
Sir Liam Donaldson	205-210	205-210	Nil	Nil	210-215	210-215	Nil	Nil
Richard Douglas	155-160	155-160	Nil	Nil	150-155	150-155	Nil	Nil
David Flory[1, 7]	180-185	195-200	2,000	2,000	215-220	215-220	800	800
David Harper	135-140	135-140	Nil	Nil	150-155	150-155	Nil	Nil
Sian Jarvis	110-115	130-135	Nil	Nil	140-145	140-145	Nil	Nil
Bruce Keogh[1]	N/A	N/A	N/A	N/A	185-190	185-190	Nil	Nil
David Nicholson	215-220	215-220	37,600	25,100	225-230	225-230	46,900	27,900
Una O'Brien	115-120	125-130	Nil	Nil	135-140	135-140	Nil	Nil
Hugh Taylor	165-170	165-170	Nil	Nil	165-170	165-170	Nil	Nil
Chan Wheeler	145-150	185-190	132,600	79,000	60-65	200-205	35,100	20,900

(1) Each of these individuals is seconded into the Department from NHS organisations and are paid by their employing authority. The Department re-imburses the employing authority for salary and associated expenses. The table above shows the amount paid in salary by the employing authority not the amount invoiced to the Department. For the two members of staff from organisations outside the Resource Accounting boundary, the amounts reimbursed in 2008-09 were £278,503 to North West London Hospitals NHS Trust for Sally Davies and £231,608 to UCL Hospitals NHS Trust for Bruce Keogh.
(2) No members received non-cash remuneration elements or compensation for loss of office in 2007-08 or 2008-09.
(3) Performance pay is awarded in arrears; therefore, the non consolidated performance pay included in this column relates to 2006-07 performance year payable in 2007-08. Details of start and end dates for those not serving the full term can be found in paragraph 12.
(4) Clare Chapman receives contractual non consolidated performance pay of £27,500 per annum subject to satisfactory performance. This is paid in the year to which it is related.
(5) Performance pay is awarded in arrears; therefore non consolidated performance pay awards for the year 2007-08 were actually paid in 2008-09. Similarly those for 2008-09 will be paid in 2009-10.
(6) The salary reported for Mark Britnell in the 2007-08 report did not include the non consolidated performance pay the seconding body has now reported.
(7) The salary range reported for David Flory in the 2007-08 report did not take account of some arrears of pay and a non consolidated performance pay award the seconding body has now reported
(8) The net Benefit in Kind is the amount received by the individual. The gross Benefit in Kind is the amount received by the individual plus the tax and National Insurance paid by the Department. to HM Revenue & Customs.

Table 2 - Pension interests of DB and CMB Members

		Real increase in pension	Real increase in lump sum	Pension at End Date	Lump sum at End Date	CETV at Start Date (31/03/08)[3]	CETV at End Date (31/03/09)	Employee contribut-ions and transfers in	Real increase in CETV as funded by employer
		£'000	£'000	£'000	£'000	£'000	£'000	To nearest £1,000	To nearest £1,000
Christine Beasley	Chief Nursing Officer	0-2.5	0-2.5	50-55	160-165	1,137	1,175	2	3
David Behan	Director General of Social Care, Local Government and Care Partnerships	0-2.5	0	5-10	0	48	84	4	28
Mark Britnell [2, 4]	Director General of Commissioning and System Management	2.5-5.0	10.0-12.5	30-35	90-95	320	466	20	96
Clare Chapman	Director General of Workforce	2.5-5.0	0	7.5-10.0	0	63	120	10	42
Christine Connelly	Director General, Chief Information Officer	0-2.5	0	0-5	0	0	28	4	24
Sally Davies[2]	Director General of Research and Development	2.5-5.0	10.0-12.5	65-70	205-210	1,127	1,696	15	378
Sir Liam Donaldson	Chief Medical Officer	0-2.5	2.5-5.0	95-100	295-300	2,132	2,324	3	18
Richard Douglas	Director General of Finance and Chief Operating Officer	0-2.5	0-2.5	50-55	155-160	938	1,025	2	2
David Flory[2]	Director General of NHS Finance, Performance and Operations	2.5-5.0	7.5-10.0	15-20	45-50	182	290	17	72
David Harper	Director General of Health Improvement and Protection	2.5-5.0	7.5-10.0	45-50	135-140	800	920	2	56
Sian Jarvis	Director General of Communications	0-2.5	2.5-5.0	10-15	40-45	192	223	2	13
Bruce Keogh[2]	NHS Medical Director	0-2.5	0-2.5	65-70	205-210	1,146	1,519	16	345
David Nicholson	NHS Chief Executive	2.5-5.0	0	5-10	0	82	143	5	51
Una O'Brien	Director General of Policy and Strategy	0-2.5	2.5-5.0	30-35	95-100	520	590	2	21
Hugh Taylor	Permanent Secretary	0-2.5	0-2.5	70-75	210-215	1,541	1,672	2	4
Chan Wheeler	Director General of Commercial Directorate	0-2.5	0	0-5	0	27	38	1	11

(1) No automatic lump sum payable to premium scheme members
(2) Each of these individuals is seconded into the Department and are members of pension schemes operated by their employing authority. Please see the Resource Accounts of their employing authority for details of the scheme that they are in.
(3) The 'CETV at start date' figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.
(4) The 'CETV at start date' for Mark Britnell differs from the closing figure in last year's accounts as a result of his total pensionable pay being incorrectly capped in the calculation

B - MINISTERS

30. Ministers are political appointments made by the Prime Minister; they do not have contracts of employment. Consequently notice periods and termination periods do not apply.

31. The following Ministers were in post during 2008-09 financial year:

Minister		**Date Appointed**
Ben Bradshaw MP	Minister of State	30 June 2007
Lord Ara Darzi	Parliamentary Under Secretary	29 June 2007
Rt Hon Alan Johnson MP	Secretary of State	29 June 2007
Ann Keen MP	Parliamentary Under Secretary	30 June 2007
Ivan Lewis MP	Parliamentary Under Secretary	6 May 2006*
Phil Hope MP	Minister of State	6 October 2008
Rt Hon Dawn Primarolo MP	Minister of State	30 June 2007

* until 31 October 2008

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

33. Table 3 provides details of remuneration interests of Ministers.

Table 3 - Remuneration interests of Ministers

	2007-08		2008-09				
	Salary	Lords Ministers Night Subsistence	Salary	Full Year Equivalent Salary	Lords Ministers Night Subsistence	FYE Lords Ministers Night Subsistence	Compensation for Loss of Office
	£	£	£	£	£	£	£
Ben Bradshaw**	30,031	N/A	41,071	40,646	Nil	Nil	N/A
Lord Ara Darzi*	32,235	15,934	44,085	43,630	23,247	37,657	N/A
Phil Hope	N/A	N/A	17,594	40,646	Nil	Nil	N/A
Alan Johnson**	58,105	N/A	79,179	78,356	Nil	Nil	N/A
Ann Keen**	22,794	N/A	31,174	30,851	Nil	Nil	N/A
Ivan Lewis	30,280	N/A	18,320	30,851	Nil	Nil	N/A
Dawn Primarolo**	30,031	N/A	41,071	40,646	Nil	Nil	N/A

* Lord Ara Darzi works part time at 0.6 of a full time equivalent
** Actual salaries differ from full year equivalents as a result of a pay award backdated to November 2007 but paid in 2008-09

34. Table 4 provides details of pension interests of Ministers.

Table 4 – Pension interests of Ministers

	Real increase in pension	Pension at End Date	CETV at Start Date (31/03/08)	CETV at End Date (31/03/09)	Employee contribut-ions and transfers in	Real increase in CETV as funded by employer
	(£'000)	(£'000)	(£'000)	(£'000)	To nearest £1,000	To nearest £1,000
Ben Bradshaw	0-2.5	7.5-10.0	64	90	4	18
Lord Ara Darzi	0-2.5	0-2.5	15	24	4	3
Phil Hope	0-2.5	2.5-5.0	37	43	2	4
Alan Johnson	0-2.5	7.5-10.0	122	139	3	7
Ann Keen	0-2.5	0-2.5	9	22	3	9
Ivan Lewis	0-2.5	5.0-7.5	53	57	2	1
Dawn Primarolo	0-2.5	10.0-12.5	157	180	4	10

* The 'CETV at start date' figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Salary

35. In respect of Ministers in the House of Commons, Departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£63,291 from 1st April 2008) and various allowances to which they are entitled are borne centrally. The Department does pay legitimate expenses for Ministers which are not a part of the salary or a benefit in kind.

36. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in Table 4.

Ministerial pensions

37. Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutorily based (made under Statutory Instrument SI 1993 No 3253, as amended).

38. Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an

'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and the lower rate of employee contribution.

39. Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6 per cent of their Ministerial salary if they have opted for the 1/50th accrual rate or 10 per cent of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 26.8 per cent of the Ministerial salary.

40. The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Cash Equivalent Transfer Values

41. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real Increase in CETV

42. This reflects the increase in CETV effectively funded by the Exchequer. It does not include the increase in accrued pension due to inflation, contributions paid by the Minister and uses common market valuation factors for the start and end of the period.

C - NON EXECUTIVE DIRECTORS

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

44. Non Executive Directors are not employees of the Department. The Non Executive Directors are appointed for a fixed term of three years initially with the possibility of extension. They are appointed primarily to attend DB meetings which involve an estimated time commitment of eleven four-hour meetings and two overnight events per year. One of the Non Executive Directors chairs the Department's Audit Committee (4-5 meetings per year). The Non Executives also make a significant contribution to meetings of the Performance Committee, and in work through Committees and with senior officials on other departmental business.

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

46. Derek Myers is not personally reimbursed for his role as a Non Executive Director. His employer is reimbursed for £500 for every day worked, totalling £6,500 in 2008-09. Julie Baddeley and Mike Wheeler receive a fee of £2,000 per day, with payments to Julie Baddeley totalling £29,500 in 2008-09 and to Mike Wheeler totalling £27,000. All these amounts exclude VAT.

47. Non Executive Directors fees are not pensionable.

Hugh Taylor
9 July 2009
Permanent Secretary
Department of Health

Richmond House
79 Whitehall
London SW1A 2NS

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

1. This Note sets out the nature of the relationship between Accounting Officers in the Department of Health, its Agencies and the NHS. It refers to *Managing Public Money* published by HM Treasury

2. As Principal Accounting Officer, the Permanent Secretary of the Department of Health is accountable for the Department's administration, some central health and miscellaneous health services, those elements of social services expenditure within the Department's responsibilities, Welfare Foods, European Economic Area (EEA) medical costs and resources voted for the Office of the Independent Regulator for NHS Foundation Trusts. These are covered by the Request for Resources 2 and Request for Resources 3 in the Department's Estimates and Accounts. As Head of the Department, he takes responsibility for the consolidation of the Department's Accounts and for the voted cash requirement, and has the Department-wide responsibility for the good management of the Department as a whole, including a high standard of financial management. This includes the parts of the Department managing the NHS (as distinct from the NHS itself) and the Department's Agencies, since they are parts of the Department operating in support of the Secretary of State. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money*.

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

4. Each year the Permanent Secretary agrees with the Chief Executive of the Purchasing and Supply Agency within the Department of Health a budget for the administration costs to cover its responsibilities, and delegates to him immediate responsibility for the good management of the Agency. The Chief Executive is designated as an Agency Accounting Officer and his responsibilities are set out in the Agency's Framework Documents and his letters of designation as Agency Accounting Officer.

5. The Chief Executive of the Medicines & Healthcare Products Regulatory Agency is accountable for the expenditure relating to this Trading Fund. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money* for the Agency. His accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health.

6. Chief Executives of NHS Trusts, Primary Care Trusts and Strategic Health Authorities are designated as Accountable Officers and Chief Executives of Special Health Authorities are designated as Accounting Officers, who are accountable to Parliament through the NHS Chief Executive for the efficient, effective and proper use of all the resources in their charge. The Chief Executives of Special Health Authorities are accountable for the expenditure relating to those bodies. They are responsible for carrying out the duties set out in *Managing Public Money* in respect of those Authorities. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health

7. The Chief Executive of the NHS Business Services Authority is also the Accounting Officer for the NHS Pension Scheme. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money* in relation to the operation of the NHS Pension Scheme. In respect of the administrative expenditure of the Authority, the Chief Executive's responsibilities are set out in the Authority's Framework Document and his letter of designation as Authority Accounting Officer.

8. The Chief Executives of Non Departmental Public Bodies are designated as Accounting Officers who are accountable to Parliament through either the Permanent Secretary or the NHS Chief Executive, depending upon designation, for the efficient, effective and proper use of all the resources in their charge. They are responsible for carrying out the duties set out in *Managing Public Money* in respect of those bodies.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

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

2. This Statement is given in respect of the Resource Account for the Department of Health, which incorporates the transactions and net assets of the core Department, its Executive Agencies and other bodies falling within the Departmental boundary for resource accounting purposes. This includes English NHS bodies except NHS Trusts and Foundation Trusts (although the Department's investment in them is included) and certain Special Health Authorities. As Accounting Officer for the Department, I acknowledge my overall personal responsibility for ensuring that the Department, its Executive Agency and other Arms Length and NHS bodies maintain a sound system of internal control. I am supported in exercising the responsibility by the Additional Accounting Officer (the Chief Executive of the NHS) for the resources voted by Parliament for the NHS (RfR1). The Additional Accounting Officer's and my roles and responsibilities are set out in a Memorandum of Understanding between us both. In particular, I have drawn on the overall statements of internal control for Strategic Health Authorities, Primary Care Trusts and NHS Trusts, which he has approved, to support this Statement on Internal Control.

The purpose of the system of internal control

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

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

4. The system of internal control (which accords with the Treasury guidance) was in place in the Department of Health for the financial year ending 31 March 2009, and has remained in place up to the date of final approval of the Department's Annual Report and Resource Account. Some improvements to the system of internal control were put into place during 2008-09. This included:

- embedding risk management in Directorate Business Plans for 2008-09 and beyond, underpinned by a Department of Health policy on risk and associated guidance on risk management (which accords with the latest guidance on risk management in central Government from the Office of Government Commerce (OGC)), a desk-based electronic training and group training for staff;
- embedding the Statement on Internal Control process more firmly in the Department's Scorecard accountability cycle to support continuous business improvement and the introduction of an electronic self-assessment tool for Directorates to use quarterly to establish their performance against the corporate core assurance standards (paragraph 15); and
- acting in 2008-09 on the recommendations on governance structures made by the Cabinet Secretary in his report of the Capability Review of the Department of Health (paragraph 20).

Capacity to handle risk

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

6. Leadership of the system of internal control has been shown by senior staff in visibly owning and supporting risk assessment and control activity, in particular in support of the delivery programmes for PSA targets and other priorities. The Department of Health is managed by the Departmental Board within the strategic framework set by ministers. The Board is at the apex of the Department's governance system maintaining an oversight of strategy, performance and risk. It is supported by:

- the NHS Management Board which provides leadership for the NHS and supports the NHS Chief Executive in the discharge of his responsibilities as the Additional Accounting Officer;
- the Corporate Management Board (CMB) which provides leadership for the work of the Department and supports the Permanent Secretary in the discharge of his responsibilities as Principal Accounting Officer. The CMB has two sub Committees - the Corporate Management and Improvement Committee and the Policy Committee;
- the Audit Committee which provides advice to the Principal Accounting Officer, the Additional Accounting Officer, and the Department's Board on risk management, corporate governance, and assurance arrangements in the Department and its subsidiary bodies;
  - the Performance Committee (see paragraph 19); and
  - the Committee for the Regions which supports the Department's presence in the regions in respect of the delivery of local health and social care.

7. The Department's policy is to know about its risks; have clear accountabilities and robust and consistent procedures in place for the management of them; and to have staff at all levels who possess the necessary competencies in risk management. The Department's risk framework makes clear that all staff have a responsibility for identifying, assessing, addressing, monitoring and reviewing risks to the achievement of objectives in the areas of work for which they are responsible.

8. The Department's policy and guidance on risk management is kept under review, to ensure that it is fully in line with the latest Office of Government Commerce and Treasury guidance. The risk policy is underpinned by a single IT system for capturing and monitoring information about risks, supported by an electronic desk-based training tool, and a Department of Health specific one-day training course. Its implementation is overseen by the Risk Forum with director level representatives from all directorates of the Department.

The risk and control framework

9. Within the Department, I operate an accountability process based around compliance with five core assurance standards:

i risk management
ii planning and delivery
iii resource management
iv policy development, and
v governance of Arms Length Bodies (ALBs).

10. Risk management has been integrated into the Departmental Business Planning process and further improvements have been implemented to link Directorate level operational risks with strategic risks in the corporate risk register and that of our Public Service Agreement (PSA) risks. The 2009-10 Business Plan now provides a stronger basis on which to take forward work on embedding the Assurance Framework through the scorecard and stocktake processes. Similarly, my 2009-10 Budget Accountability letters, issued to Directors General in March 2009, were accompanied by guidance on the Department's corporate core assurance standards, which sets out how Directorates can judge and report on their compliance against the five standards (including an expansion of the standard on the governance of ALBs, to encompass the Departments National Programmes and Advisory Bodies).

11. The Board is responsible for the ownership and management of high level strategic risks. Throughout the year the Board, supported by its Audit Committee and other Committees, and advised by the Risk Forum, has maintained an overview on these high-level risks, presented in a high-level risk register. There has been continuing challenge to the assessments of likelihood and impact of the risks identified and contained in the high-level risk register. When appropriate, some risks have been removed from the register to be overseen by one of the Department's Boards and Committees or managed at Directorate level, and new risks added. The Department continues to be responsible for high risk activity, including, for example, leadership of work across Government on the flu pandemic.

12. Directorate level operational risks are monitored using the Enterprise Project Management System, and reviewed on a monthly basis using the directorate performance scorecards linked to each directorate's risk register. Where necessary, operational risks are escalated to the departmental performance scorecard, and the corporate risk register, on the basis of a monthly risk review.

13. The Department's Audit Committee advises the Accounting Officers and the Board on the quality of risk management, corporate governance and internal control in the Department. The Audit Committee considers the risk management requirements of subordinate bodies and the key governance information flowing to the Chief

Executives from these bodies. It has reviewed this statement in draft and its comments on evidence of assurances received have been reflected in the final version.

14. Within the Department, the Assurance Strategy and Audit (ASA) team provides an independent assurance function on the robustness of governance and internal control processes. The Head of Internal Audit's Annual Opinion is as follows:

> "I have formed my opinion based on the findings of ASA activity carried out through 2008-09 and insights obtained through interactions with management, and taking into account the Government Internal Audit Standards (GIAS) requirements.
>
> In my opinion, during 2008-09, the Department has sustained previous improvements and has strengthened its governance, risk management and control environment. However, further developments are needed to embed good practice throughout the Department and develop a meaningful risk management culture, where accountability for risk and control, required behaviours and the measurement of their effectiveness is clearly articulated and maintained.
>
> In spite of the need for further improvement, I have seen no evidence of systemic control weaknesses of a fundamental nature. Consequently, overall, in my opinion, and based upon the work carried out by ASA, the design, adequacy and effectiveness of the system of governance, risk management and internal control operating during 2008-09 is satisfactory.'

15. Directors General, and certain other senior managers, are required to provide me with assurance statements at the end of the financial year which address the extent to which the five core assurance standards have been met in their Directorates. During 2008-09 a new electronic Statement of Internal Control (SIC) self assessment tool was introduced in Directorates to help embed the SIC process more firmly in the quarterly accountability cycle and support continuous business improvement.

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

- assessments by Strategic Health Authorities which, as part of their role of performance management of PCTs and NHS Trusts, identify local risks to delivery, where necessary coordinate mitigation actions, and report into NHS Management Board discussions;
- work by the Healthcare Commission during the year;
- reports from the National Audit Office (Annex B) resulting from their work in the Department and the NHS, and the Public Accounts Committee (Annex C);
- the Department's Assurance Strategy and Audit Unit report for 2008-09;
- Gateway reviews of large projects; and
- assessments of the Department's work by other external units, including for example the Prime Minister's Delivery Unit.

Review of effectiveness

17. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and other comments made by external auditors in their management letter and other reports.

18. By means of a summary report (prepared by my Governance Team), I have reviewed the assurance statements provided to me by Directors General, which recorded the position in their business groups over the year. This report indicates that internal control and assurance arrangements are being generally strengthened.

19. The establishment of the new overarching Performance Committee as a sub-committee of the Board from April 2008, to ensure governance and control of the Department's Strategic Objectives, PSAs (including the Department's contribution to the cross-government PSA led by other government departments), finance, major programmes, and value for money, has been successful. It has provided a focus on performance across the Department's work, added value to the Department's accountability arrangements, and reported on performance to the Departmental Board.

20. The Department has continued to implement the Development Plan in response to the June 2007 Capability Review. Clear and effective accountability arrangements have been followed for delivering the Plan and overseeing its progress. Directors General and relevant Directors have had Delivery Agreements detailing their responsibilities for delivering aspects of the Plan, and progress has been monitored through formal

governance arrangements including the Departmental Board and its sub-committees, including the Corporate Management Board and the Corporate Management and Improvement Committee.

21. The Department continued to implement the requirements of the Cabinet Office Data Handling Review (DHR) and has delivered targeted training to Information Asset Owners (IAOs) to enable them to undertake formal assessments of how they manage the information within their span of control. The focus of this work has been to:

- identify the nature, size and location of the personal data sets and
- identify and review the risks to the data and mitigate those risks to an acceptable level.

22. In tandem, the Department has introduced a regime for assessing compliance with DHR requirements and have strengthened procedures for responding to, and recovering from, incidents. On-line training in handling information securely is now available to all staff and is required to be undertaken on a mandatory annual basis.

23. Similar activity took place across our delivery chain, both in our Arms' Length Bodies (ALBs) and the NHS and assessment of the management of information risk is incorporated into existing assurance arrangements, the core assurance standards for ALBs and the Information Governance Toolkit for the NHS.

24. Cabinet Office now requires departments to undergo an annual assessment of information assurance maturity using an Information Assurance Maturity Matrix (IAMM) and to report back to the Centre on our assessment. The results of our work on this assessment will drive our information assurance strategy for the forthcoming year.

25. Because of its size and importance, the NHS IT programme is run as a managed programme by a separate unit, Connecting for Health. A new Director General & Chief Information Officer, with responsibility for Connecting for Health was appointed in September 2008. The programme has continued to deliver systems to the NHS despite the loss of one of its major suppliers. The key risk following the departure of Fujitsu was the loss of support for systems already deployed. One of the additional suppliers, BT, was appointed to manage the live systems in line with existing contract provisions. As part of the mitigation of the risk of supplier exit, a framework was developed at the start of the programme which allows additional suppliers to be invited to compete for the remaining elements of the programme impacted by an exiting supplier – this has proven to be an effective tool to ensure minimal disruption to the delivery objectives of the programme.

26. The control issues identified during 2007-08 in respect of the Department's full compliance with the equality and human rights legislation continued to be addressed through a comprehensive programme of work including the development and implementation in 2008-09 of a robust and challenging Single Equality Scheme. This revised and updated Scheme was published on 17June 2009 and set out the steps the Department is taking to meet and sustain its responsibilities under the Government's Gender, Race and Disability Equality (General and Specific) Duties both as an employer and a Department of State for the period 2009-2012. The Single Equality Scheme also covers work being led within the Department that will contribute to cross-Government work on preparation for implementation of the Equality Bill introduced in April 2009.

27. For the Department's Arm's Length Bodies (ALBs), I have reviewed a summary of the key points raised in the Statement of Internal Control that each body's Accounting Officer makes as part of their annual accounts, and of the opinions of their external auditors. I have similarly reviewed assurance statements provided by the senior member of staff in the Department responsible for sponsoring each body. On this basis I have concluded that at least minimum assurance standards are being met, and that there are no significant control issues in the ALBs which need to be included in this SIC. For the Department's Regional Public Health Offices, I have been assured that appropriate controls are in place in each of the regions and there are no significant control issues to report.

28. The Statements of Internal Control prepared for the NHS Summarised Accounts, approved by the NHS Chief Executive as Additional Accounting Officer for RfR1, have been drawn on in compiling this Statement. The significant control issues disclosed by the NHS Bodies are included in the NHS SIC.

29. For NHS Trusts and Primary Care Trusts, Strategic Health Authorities have collated information from the Accountable Officers' own statements on Internal Control and Internal Audit reports in their area. These show that, at 31 March 2009, 99% of PCTs provided evidence that an adequate system of internal control was in place, while 1% (2 PCTs) were unable to do so.

30. In 2008-09, NHS expenditure remained within the sums voted by Parliament and the Department of Health resources limit set by HM Treasury. Overall, there was a planned net surplus of £1.74billion. The aggregate surplus delivered in 2008-09 by SHAs and PCTs will be carried forward to 2009-10, when it can then start to be deployed in a planned and managed way.

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

Significant internal control problems

32. 59 PCTs and 75 NHS Trusts (which are outside the Department's resource accounting boundary), together disclosed a total of 528 significant control issues in their statements of internal control. The majority of these related to non compliance with Standards of Better Health. Strategic Helath Authorities will continue to monitor and review the ongoing development and embedding of systems of internal control by PCTs and NHS Trusts.

33. In compiling the Statements of Internal Control for the NHS Summarised Accounts, it was noted that the accounts of one PCT were qualified on the grounds of regularity. In addition, the PCT summarised account consolidates the income that is received from prescription charges. The account in which prescription charges are recorded, the NHS Business Services Authority (BSA) Pharmacuetical Account, has been qualified for many years on the grounds of regularity, due to patients falsely claiming that they are entitled to free prescriptions. The estimate of the level of this fraud has increased from £47 million in 2002-03 to £100 million in 2007-08, with 2% of patients wrongly claiming exemptions in 2007-08 compared to 1.6% in 2002-03. Both estimates were outcomes of NHS Counter Fraud Service (CFS) mesurement exercises. The Department and the CFS will be taking work forward, with the BSA and PCTs, to better understand the nature and extent of fraud and to consider how to reduce it.

Conclusion

34. I conducted my review of the effectiveness of the system on internal control in the Department of Health jointly described above, in parallel with that of the NHS Chief Executive as Additional Accounting Officer. Within the NHS, Strategic Health Authorities will continue to monitor and review the ongoing development and embedding of systems of internal control by PCTs and NHS Trusts. The Department and CFS will also take forward work to better understand the nature and extent of prescription fraud and consider what can be done to reduce it.

35. In the Department overall, leadership of the system of internal control has been shown by senior staff in visibly owning and supporting risk assessment and control activity, in particular in support of the delivery programmes for PSA targets and other priorities.

Hugh Taylor
Permanent Secretary and Principal Accounting Officer
9 July 2009

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Department of Health for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Recognised Gains and Losses, the Balance Sheet, the Consolidated Cashflow Statement, the Consolidated Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, information which comprises "Management and governance of the Department", "Departmental aims and objectives", "Dealing with risks and uncertainties", "Developing the Department" and "Public interest and other issues" included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Departments' affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises "Management and governance of the Department", "Departmental aims and objectives", "Dealing with risks and uncertainties", "Developing the Department" and "Public interest and other issues" is consistent with the financial statements.

Opinion on Regularity

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

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

11 July 2009

Statement of Parliamentary Supply

for the year ended 31 March 2009

Summary of Resource Outturn 2008-09

								2008-09	2007-08
		Estimate			Outturn				Outturn
Request for Resources	Note	Gross Expenditure £'000	A -in- A £'000	Net Total £'000	Gross Expenditure £'000	A -in- A £'000	Net Total £'000	outturn compared with Estimate savings /(excess) £'000	Net Total £'000
1	2	94,672,164	22,478,546	72,193,618	93,652,811	22,218,421	71,434,390	759,228	68,925,959
2	2	3,559,510	99,595	3,459,915	3,146,502	78,779	3,067,723	392,192	3,628,492
3	2	15,924	-	15,924	15,674	-	15,674	250	13,507
Total resources	3	**98,247,598**	**22,578,141**	**75,669,457**	**96,814,987**	**22,297,200**	**74,517,787**	**1,151,670**	**72,567,958**
Non-operating cost A-in-A				**1,835,450**			**1,024,637**	**(810,813)**	**1,577,064**

Net cash requirement 2008-09

				2008-09	2007-08
	Note	Estimate £'000	Outturn £'000	outturn compared with estimate Saving/ (excess) £'000	Outturn £'000
Net cash requirement	4	74,737,828	72,306,071	2,431,757	68,658,849

Summary of the income payable to the Consolidated Fund

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

		Forecast 2008-09 £'000		Outturn 2008-09 £'000	
	Note	Income	Receipts	Income	Receipts
Total	5	339,322	*339,322*	339,487	*339,403*

Explanations of variances between Estimate and outturn are given in Note 4 and in the Management Commentary.

The notes on pages 47-86 form part of these accounts

Operating Cost Statement

for the year ended 31 March 2009

		2008-09							2007-08
		Core Department			Consolidated				
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Core Department	Consolidated
	Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Administration Costs:									
Staff costs	9	134,342			134,342			134,281	134,281
Other administration costs	10		99,223			99,223		107,228	107,228
Operating income	12			(5,201)			(5,201)	(5,924)	(5,924)
Programme Costs									
Request for Resources 1									
Securing health care for those who need it.									
Staff Costs	9	131,824			8,140,158			148,123	7,423,953
Programme Costs	11		6,795,704			85,512,653		6,178,370	82,058,422
Income	12			(1,395,577)			(22,557,889)	(1,275,568)	(20,556,416)
Request for resources 2:									
Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.									
Staff Costs	9	4,271			20,564			5,265	21,081
Programme Costs	11		2,872,880			2,892,373		3,439,834	3,424,954
Income	12			(73,487)			(73,597)	(74,004)	(74,025)
Request for resources 3:									
Office of the Independent Regulator for NHS Foundation Trusts									
Staff Costs	9	-			-			-	-
Programme Costs	11		15,674			15,674		13,507	13,507
Income	12			-			-	-	-
Totals		270,437	9,783,481	(1,474,265)	8,295,064	88,519,923	(22,636,687)	8,671,112	72,547,061
Net Operating Cost	3,13			**8,579,653**			**74,178,300**	**8,671,112**	**72,547,061**

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Net (loss)/gain on revaluation of tangible fixed assets	(16,429)	(521,299)	21,112	405,200
Net gain on revaluation of investments	26,702	26,702	98,632	98,834
Receipt/revaluation of donated assets	-	(18)	-	13,835
Impairment of fixed assets	-	(210,681)	-	(33,406)
Total recognised gains for the year	**10,273**	**(705,296)**	**119,744**	**484,463**

The notes on pages 47-86 form part of these accounts

Balance Sheet

as at 31 March 2009

		2009 £'000			2008 £'000	
	Note	Core Department		Consolidated	Core Department	Consolidated
Fixed assets:						
Tangible assets	14	619,336		6,798,311	598,004	7,304,878
Intangible assets	15	1,391,106		1,412,434	1,305,717	1,322,871
Financial assets	16	24,099,341		24,148,153	24,006,968	24,051,613
			26,109,783		**25,910,689**	**32,679,362**
Debtors falling due after more than one year	18		**146,675**	**197,442**	**134,100**	**186,890**
Current assets:						
Stocks	17	571,847		656,905	337,403	409,776
Debtors	18	413,071		1,672,083	507,597	2,157,327
Cash at bank and in hand	19	1,676,501		1,746,401	2,245,086	2,446,682
		2,661,419		**4,075,389**	**3,090,086**	**5,013,785**
Creditors (amounts falling due within one year)	20	(2,744,335)		(8,612,673)	(3,111,571)	(9,062,636)
Net current Liabilities			**(82,916)**	**(4,537,284)**	**(21,485)**	**(4,048,851)**
Total assets less current liabilities			**26,173,542**	**28,019,056**	**26,023,304**	**28,817,401**
Creditors (amounts falling due after more than one year)	20	(183,661)		(424,288)	(182,075)	(362,278)
Provisions for liabilities and charges	21	(1,607,650)		(15,645,577)	(1,610,149)	(14,372,351)
			(1,791,311)	(16,069,865)		
Net Assets			**24,382,231**	**11,949,191**	**24,231,080**	**14,082,772**
Taxpayers' equity						
General fund	22		23,950,695	9,629,175	23,809,817	11,051,206
Revaluation reserve	23.1		431,536	2,190,402	421,263	2,881,254
Donated asset reserve	23.2		-	129,614	-	150,312
			24,382,231	**11,949,191**	**24,231,080**	**14,082,772**

The notes on pages 47-86 form part of these accounts

Hugh Taylor
***9 July* 2009**
Permanent Secretary
Department of Health
Richmond House
79 Whitehall
London SW1A 2NS

Consolidated Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09 £'000	2007-08 £'000
Net cash flow from operating activities	24.1	(70,960,047)	(67,606,440)
Capital expenditure and financial investment	24.2, 24.3	(1,006,621)	(1,035,428)
Payments of amounts due to the Consolidated Fund		(320,897)	(397,877)
Financing	24.4	71,587,705	70,052,136
(Decrease)/Increase in cash in the period	24.5	**(699,860)**	**1,012,391**

The notes on pages 47-86 form part of these accounts

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2009

	2008-09 £m	2007-08 £m
Objective I		
Better health and well being for all	30,279	30,188
Objective II		
Better care for all	65,314	61,840
Other	1,222	1,155
	96,815	93,183
Total Income	(22,637)	(20,636)
Net Operating Cost	**74,178**	**72,547**

Note

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

The presentation above provides high level indicative spend against the key Departmental objectives applying a method based on outturn data already collected by the NHS. Although Departmental and NHS activity can contribute to both objectives, at the same time, the adopted method provides a high-level and fair assessment of spend by objective. These figures should not be taken as absolute however. Note 25 provides further analysis of how the expenditure by objectives is derived and the assumptions applied.

Costs have been allocated to these objectives in accordance with the methodology set out in note 25 using the latest available data and for reference costs this is the final 2007-08 data. The programme budgeting data has not yet been published and is subject to revision, it is highly unlikely however that any changes would be of a material nature. This information is collected at a local level and subject to departmental review. The extent of judgement required in this process means that significantly different, yet still defensible, allocations of income and expenditure could have been reported.

The attribution of operating costs in 2008-09 is based on the Public Service Agreement (PSA) targets agreed as part of the 2007 Comprehensive Spending Review, whereas the 2007-08 attribution was based on a different set of PSA targets agreed in the 2004 Spending Review.

The notes on pages 47-86 form part of these accounts.

NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

1 Statement of accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) for 2008-09 issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

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

- Public Dividend Capital issued by the Department due to the creation of new NHS Trusts and written-off due to the dissolution of existing NHS Trusts is debited or credited to the General Fund rather than the Operating Cost Statement.
- Income from NHS bodies received by the Department or bodies within the accounting boundary is excluded and netted off the relevant expenditure.
- National Insurance Contributions are accounted for on a cash basis.
- In the Consolidated Statement of Operating Costs by Departmental Aim and Objectives, costs have been allocated against 2008-09 objectives, using reference cost 2007-08 data.
- In the Analysis of net operating cost by spending body, Note 13, the Department has grouped rather than listing them individually.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks where material at their value to the business by reference to their current cost.

1.2 Basis of consolidation

These accounts consolidate financial information for the Department of Health (core Department), its supply-financed Executive Agency, and other NHS bodies funded directly by the Department that fall within the Departmental boundary as defined in the Government Financial Reporting Manual issued by HM Treasury. The Medicines & Healthcare Products Regulatory Agency, NHS Trusts, Foundation Trusts and all, except NHS Tribunals, of the Department's non-Departmental Public Bodies are excluded from the consolidation. Note 37 contains a full list of bodies consolidated within and excluded from the accounts. More information on entities within the Departmental family can be found in the annual reports and accounts of the Executive Agency or in the individual and summarised accounts of NHS Trusts, Strategic Health Authorities, Special Health Authorities (summarised accounts are not produced in respect of Special Health Authorities), Foundation Trusts and Primary Care Trusts which are published separately.

1.3 Intangible fixed assets

The following intangible fixed assets are capitalised:

Purchased computer software licences

Licences and trademarks

Development expenditure

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

1.4 Tangible fixed assets

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

i) a discrete asset;

ii) a collection of assets which, individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all of the following criteria:
   — the items are functionally interdependent;
   — the items are acquired at about the same date and are planned for disposal at about the same date; and
   — the items are under single managerial control.

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

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

Fixed assets are valued as follows:

(i) The Civil Estate (land and buildings held for use by the core Department) was valued as at 30 June 2000, and revalued as at 1 September 2005 for the Central Department's Land and Buildings, by independent valuers employed by the Department. For other NHS bodies, Civil Estate Land and Building valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied as at 31 March 2005. All valuations have been undertaken according to Royal Institute of Chartered Surveyors (RICS) guidelines.

Between 1 April 2005 and 31 March 2008 Investment Property Databank (IPD) indices for Civil Estate assets, and NHS indices for all other assets, were applied to arrive at current values. From 1 April 2008, no indices were used and individual NHS bodies revalued fixed assets as appropriate.

(ii) The Retained Estate (land and buildings primarily intended for use by NHS bodies but now surplus to requirements and held by the Department) was valued as at 31 March 2005 by professional valuers, with additional valuations as necessary where there is indication that values have substantially changed. Specialised operational property is valued at depreciated replacement cost, non-specialised operational property is valued on an existing use value and non-operational and surplus property are valued at open market value. During the year ended 31 March 2009, various properties owned by the Department of Health were revalued by the District Valuer's Office;

(iii) Other land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years (or other method of maintaining a current valuation as permitted by FRS 15 and the FReM). The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office and included in the Manual for Accounts. Valuations are carried out by the District Valuers of HMRC at five-yearly intervals. The NHS-wide five-yearly revaluation was carried out as at 1 April 2005, although individual NHS bodies will have revalued land and buildings since that date.

The NHS national valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. Subsequent revaluations by individual NHS bodies will have been carried out by various qualified valuers. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date

of 1 April 2005 and have been applied as at 31 March 2005.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In accordance with Treasury guidance on valuations, where new Depreciated Replacement Cost valuations are obtained, these are now to be based on the "Modern Equivalent Asset" (MEA) concept rather than the "like-for-like" basis employed up to 31 March 2008. Treasury has permitted the Department and NHS to revalue to the MEA basis in either 2008-09 or 2009-10, such that all DRC-valued assets will be held at a MEA valuation by 31 March 2010. It follows that certain NHS bodies are carrying specialised property at a MEA valuation at 31 March 2009 while others will be using the older basis,

(iv) IT equipment, assets in the course of construction, transport equipment, furniture and fittings and plant and machinery held for operational use are valued at net current replacement cost. In accordance with Treasury guidance, low value or short-lived assets are carried at depreciated historic cost as a proxy value for net current replacement cost, provided that the difference between the two valuation bases is immaterial. Otherwise, an appropriate index is applied. Surplus equipment is valued at the net recoverable amount.

1.5 Depreciation

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

- Freehold land and land and buildings surplus to requirements are not depreciated. Assets in the course of construction and residual interests in off-balance sheet Private Finance Initiative contract assets are not depreciated until the asset is brought into use or reverts to the Primary Care Trust, respectively.
- Buildings and dwellings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer, between 1 year and 115 years.
- Leaseholds are depreciated over the primary lease term.

The following fixed assets are depreciated on current cost evenly over the estimated life of the assets which fall within the following ranges:

- Transport equipment: between 1 year and 15 years,
- Information technology: between 1 year and 20 years,
- Plant and machinery: between 1 year and 34 years,
- Furniture and fittings: between 1 year and 51 years,

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale.

1.6 Amortisation of Intangible Fixed Assets

Intangible assets are amortised over their estimated lives as follows:

- Licences and trademarks and purchased computer software licences are amortised over the life of the licences, between 1 year and 10 years.
- Development expenditure is amortised over the life of the project, between 2 years and 25 years.
- Capitalised costs of the National Programme for IT are being amortised over the life of the project, between 2 years and 8 years.

1.7 Donated assets

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

1.8 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. Rentals under operating leases are charged as operating costs on a straight-line basis over the lease term. Leasing rental income, where the Department acts as a lessor in shared buildings, is recognised as it falls due.

1.9 Investments

Financial Assets held in the group relate mainly to transactions between the Department and its bodies. These include Public Dividend Capital (PDC), and any loans, issued by the Department to NHS Trusts, Foundation Trusts and the Medicines & Healthcare Products Regulatory Agency. The Department additionally holds financial assets in Community Health Partnerships, Shared Business Services, Plasma Resources UK Limited and Credit Guarantee Funds. All these financial assets are valued at estimated market value except for the Portsmouth Credit Guarantee Loan which is indexed at the balance sheet date using RPI and the Leeds Credit Guarantee Loan which is at historic cost.

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

1.10 Stocks

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

1.11 Research and development

Expenditure on research is not capitalised. Expenditure on development is capitalised if it meets the following criteria:

- there is a clearly defined project
- the related expenditure is separately identifiable
- the outcome of the project has been assessed with reasonable certainty as to:
  - its technical feasibility
  - its resulting in a product or service which will eventually be brought into use
  - adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as for depreciation. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Primary Care Trusts are unable to disclose the total amount of research and development expenditure charged to the Operating Cost Statement because some research and development activity cannot be separated from patient care activity.

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure, which does not meet the criteria for capitalisation, is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.12 Operating income

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

1.13 Administration and programme expenditure

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

1.14 Capital charge

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

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

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

1.15 Audit costs

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

1.16 Foreign exchange

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

1.17 Principal Civil Service Pension Scheme

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

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

1.18 NHS Pension Scheme

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

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

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

1.19 Clinical negligence costs

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

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

The calculation is made using:

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

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

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

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

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

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

Clinical Negligence Scheme for Trusts (CNST)

A provision for this scheme is calculated in accordance with FRS12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 2009 and after 1 April 1995. This is disclosed in Note 21.

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

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

b) that they are qualifying incidents; and

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

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

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

Incidents Incurred but not reported (IBNR)

FRS 12 requires the inclusion of liabilities in respect of incidents which have been incurred but not reported to the NHS Litigation Authority as at 31 March 2009 where the following can be reasonably forecast:

a) that an adverse incident has occurred; and

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

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

The NHSLA uses its actuaries, Lane, Clark & Peacock, to assess the potential value of IBNRs against each of the schemes it operates. The actuaries review existing claims records, and using an appropriate model,

calculate values in respect of IBNRs for all schemes. The provisions and contingent liabilities arising are shown in notes 21 and 31 respectively. The sums concerned are accounting estimates, and although determined on the basis of information currently available, the ultimate liabilities may vary as a result of subsequent developments.

1.20 Financial instruments

FRS 25, 26 and 29 have been adopted in respect of financial instruments for the first time from 1 April 2008. In accordance with the FReM, no restatement of prior-year comparative figures has been undertaken. The Department of Health mainly relies on Parliamentary voted funding and receipt of a proportion of National Insurance Contributions to finance its operations. The Department holds investments in private limited companies, see Note 16, and other items such as trade debtors and creditors that arise from its operations and cash resources. It does not enter into derivative transactions or interest rate swaps. The Department enters into forward contracts where a specific amount of foreign currency is required at a particular date in the future.

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

Financial assets

Financial assets are recognised on the balance sheet when the Department becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are de-recognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value.

Investments

Investments held in the group relate mainly to transactions between the Department and its bodies. The Department holds investments in Community Health Partnerships, Shared Business Services, Plasma Resources UK Limited and Credit Guarantee Funds. All these investments are valued at estimated market value except for the Portsmouth Credit Guarantee Loan which is indexed at the balance sheet date using RPI and the Leeds Credit Guarantee Loan which is at historic cost.

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

The Department's investment in NHS Trusts, Foundation Trusts and the Medicines & Healthcare Products Regulatory Agency is represented by Public Dividend Capital (PDC) which, being issued under statutory authority, is not classed as being a financial instrument.

Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. The net gain or loss incorporates any interest earned on the financial asset.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the income statement on de-recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

At the balance sheet date, the Department assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the income statement and the carrying amount of the asset is reduced directly, or through a provision for impairment of receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Department becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

Financial liabilities at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are held at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss incorporates any interest earned on the financial asset.

Other financial liabilities

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

1.21 Contingent liabilities

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

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of Resource Accounts) which are required by the Financial Reporting Manual to be noted in the Resource Accounts.

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

1.22 Value added tax

Most of the activities of the Department are outside the scope of VAT and, in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.23 Funds Held on Trust

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

1.24 Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The Government Financial Reporting Manual (FReM) requires a primary statement analysing net operating cost by Departmental aims and objectives (Consolidated Statement of Operating Costs by Departmental Aim and Objectives). The Department of Health's objectives used are those published in the Department's Strategic Framework which outlines how the high-level objectives of the Department mesh with the wider Government performance framework set out in the 2007 Comprehensive Spending Review (CSR).

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

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

1.25 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2 per cent).

1.26 Private Finance Initiative (PFI) transactions

The Department of Health follows HM Treasury's 'Technical Note 1 (Revised) How to Account for PFI transactions' which provides practical guidance for the application of the FRS 5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2). PFI schemes are schemes under which premises and facilities are constructed and run by private sector organisations in return for annual payments from Primary Care Trusts for the services provided at those premises or facilities.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where Primary Care Trusts have contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement. Where, at the end of a PFI contract, a property reverts to the Primary Care Trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset. Where the balance of risks and rewards of ownership of the PFI property are borne by the Primary Care Trusts, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.27 Assets belonging to third parties

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

1.28 Cash, Bank and Overdraft

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

1.29 Losses and Special Payments

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

www.hm-treasury.gov.uk

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

1.30 Grants Payable

Grants made by the Department are recorded as expenditure in the period in which the claim is paid, as the grant funding is not intended to be directly related to activity in a specific period.

2 Analysis of net resource outturn by section:

This note compares outturn with the figures approved by Parliament.

	Admin	Other Current	Grants	Gross Resource Expenditure	A-in-A	Outturn Net Total	Estimate	Net total Outturn compared with Estimate savings /(excess)	Prior year outturn
						2008-09 £'000			2007-08 £'000
Request for Resources 1:									
Securing health care for those who need it.									
Spending in Departmental Expenditure Limits(DEL)									
Central government spending									
Strategic health authorities and primary care trusts unified budgets and central allocations		90,746,154	118,271	90,864,425	(1,890,502)	88,973,923	89,518,326	544,403	85,803,378
		90,746,154	**118,271**	**90,864,425**	**(1,890,502)**	**88,973,923**	**89,518,326**	**544,403**	**85,803,378**
FHS-Pharmaceutical Services		1,093,558	-	1,093,558	-	1,093,558	1,110,155	16,597	1,053,795
FHS-Prescription charges income		-	-	-	(439,710)	(439,710)	(460,000)	(20,290)	(432,215)
FHS-General Ophthalmic Services		430,001	-	430,001	-	430,001	432,000	1,999	400,206
Research and Development		819,429	-	819,429	(1,951)	817,478	824,884	7,406	
		2,342,988	**-**	**2,342,988**	**(441,661)**	**1,901,327**	**1,907,039**	**5,712**	**1,021,786**
Support for Local Authorities									
Strategic health authority and primary care trusts grants to local authorities	-	-	196,391	196,391	-	196,391	290,720	94,329	228,160
	-	**-**	**196,391**	**196,391**	**-**	**196,391**	**290,720**	**94,329**	**228,160**
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
Hospital financing for credit guarantee finance (CGF) pilot projects, benefits for patients moved from prison to hospital and certain health authority and primary care trust impairments	**-**	**104,399**	**-**	**104,399**	**(29,400)**	**74,999**	**135,807**	**60,808**	**84,388**
Non-budget (not DEL or AME)									
Grant in aid to Non-departmental Public Bodies, NHS Trusts and foundation trusts PDC issues and repayments, NHS trusts and foundation trusts loans and repayments and repayment of interest	-	**-**	144,608	144,608	(1,254,560)	(1,109,952)	(1,055,976)	53,976	(981,021)
National Insurance Contributions	-	-	-	-	(18,602,298)	(18,602,298)	(18,602,298)	-	(17,230,732)
	-	**-**	**144,608**	**144,608**	**(19,856,858)**	**(19,712,250)**	**(19,658,274)**	**53,976**	**(18,211,753)**
	-	**93,193,541**	**459,270**	**93,652,811**	**(22,218,421)**	**71,434,390**	**72,193,618**	**759,228**	**68,925,959**

								2008-09 £'000	2007-08 £'000
	Admin	Other Current	Grants	Gross Resource Expenditure	A-in-A	Outturn Net Total	Estimate	Net total Outturn compared with Estimate savings /(excess)	Prior year outturn
Request for Resources 2:									
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health									
Spending in Departmental Expenditure Limits(DEL)									
Central Government Spending									
Central Department	225,515	8,050	-	233,565	(5,182)	228,383	233,483	5,100	235,585
NHS Purchasing and Supplies Authority	-	35,704	-	35,704	(110)	35,594	29,173	(6,421)	26,509
Other Services, including medical, scientific and technical services, grants to voluntary bodies, research and development and information services	-	327,854	68,142	395,996	(4,312)	391,684	391,101	(583)	280,815
Welfare Food and European Economic Area and other countries Medical costs	-	767,394	-	767,394	(68,340)	699,054	1,076,592	377,538	875,477
Other Personal Social Services	-	46,904	182,876	229,780	(468)	229,312	241,115	11,803	241,347
Medicines and Healthcare Products Regulatory Agency loans, repayment of loans and interest on loans	-	156	-	156	(367)	(211)	(24)	187	(135)
Support for local Authorities									
AIDS support grant	-	-	22,945	22,945	-	22,945	22,900	(45)	19,588
Extra Care housing grant	-	-	40,001	40,001	-	40,001	40,000	(1)	38,080
Area Based Grant	-	-	942,970	942,970	-	942,970	942,970	-	
Learning Disabilities	-	-	14,000	14,000	-	14,000	14,000	-	
Transforming Personalisation, Prevention & Well-being (TPPW)	-	-	82,000	82,000	-	82,000	82,000	-	
Common Assessment Framework	-	-	-	-	-	-	11,000	11,000	
Social Care Infrastructure	-	-	15,000	15,000	-	15,000	15,000	-	
Social Care Capital	-	-	27,727	27,727	-	27,727	27,727	-	
Mental Health Capital	-	-	22,593	22,593	-	22,593	22,593	-	
Services for people with a mental illness									147,525
Carers' grant									185,000
Preserved rights grant									275,248
Improving Information management (capital)									24,882
National training strategy									107,859
Access and systems capacity grant									546,000
Human resources development strategy									49,750
Children and adolescents mental health grant									88,503
Delayed discharged grant									100,000
Assistive technology:older people									50,000
Preventive Service Pilot:older people									39,325
Individual Budget Pilots									3,340
	225,515	**1,186,062**	**1,418,254**	**2,829,831**	**(78,779)**	**2,751,052**	**3,149,630**	**398,578**	**3,334,698**
Non-budget									
Grant in Aid funding Non-departmental public bodies and special health authorities	-	-	301,671	301,671	-	301,671	295,285	(6,386)	293,794
Spending in Departmental Expenditure Limits(DEL)									
Support for Local Authorities									
Stroke Strategy	-	-	15,000	15,000	-	15,000	15,000	-	
	225,515	**1,186,062**	**1,734,925**	**3,146,502**	**(78,779)**	**3,067,723**	**3,459,915**	**392,192**	**3,628,492**

								2008-09 £'000	2007-08 £'000
	Admin	Other Current	Grants	Gross Resource Expenditure	A-in-A	Outturn Net Total	Estimate	Net total Outturn compared with Estimate savings /(excess)	Prior year outturn
Request for Resources 3:									
Office of the Independent Regulator for NHS Foundation Trusts									
Non-budget									
Grant in aid funding to the Office of the Independent Regulator for NHS Foundation Trusts	-	-	15,674	15,674	-	15,674	15,924	250	13,507
Resource Outturn	**225,515**	**94,379,603**	**2,209,869**	**96,814,987**	**(22,297,200)**	**74,517,787**	**75,669,457**	**1,151,670**	**72,567,958**
Reconciliation to Operating Cost Statement									
Income from Consolidated Fund Extra Receipts RfR1	-	-	-	-	(339,468)	(339,468)	-	339,468	
Income from Consolidated Fund Extra Receipts RfR2	-	-	-	-	(19)	(19)	-	19	(20,897)
Net operating cost	**225,515**	**94,379,603**	**2,209,869**	**96,814,987**	**(22,636,687)**	**74,178,300**	**75,669,457**	**1,491,157**	**72,547,061**

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

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

3.1 Reconciliation of net resource outturn to net operating cost

				2008-09 £'000	2007-08 £'000
	Note	Outturn	Supply Estimate	Outturn compare with Estimate	Outturn
Net Resource Outturn	2	74,517,787	75,669,457	1,151,670	72,567,958
Non-supply income (CFERS)	5	(339,487)	(339,322)	165	(20,897)
Net Operating Cost		**74,178,300**	**75,330,135**	**1,151,835**	**72,547,061**

3.2 Outturn against final Administration Budget

			2008-09 £'000	2007-08 £'000
	Budget	Outturn		Outturn
Gross Administration Budget	226,891	225,515		231,383
Income allowable against Administration Budget	(4,448)	(5,191)		(5,585)
Net outturn against final Administration Budget	**222,443**	**220,324**		**225,798**

4 Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net Total outturn compared with Estimate saving/(excess) £'000
Net Resource Outturn	2	75,669,457	74,517,787	1,151,670
Capital		4,244,669	2,288,215	1,956,454
Non operating A-in-A		(1,835,450)	(1,024,637)	(810,813)
Accruals adjustments				
Non-cash items	10	(4,794,722)	(4,704,227)	(90,495)
Changes in working capital other than cash		-	(477,459)	477,459
Changes in creditors falling due after more than one year	20	-	(62,010)	62,010
Use of provision	21	1,453,874	1,717,159	(263,285)
Other		-	51,243	(51,243)
Net cash requirement		**74,737,828**	**72,306,071**	**2,431,757**

Explanations of variations

The department stayed within its overall cash limit, with an underspend of £2.4 billion or 3.3%. The cash underspend is consistent with the net revenue (£1,152m) and net capital (£1,146m) resource underspends in the Resource Account.

5 Analysis of income payable to the Consolidated Fund

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

		Forecast 2008-09 £'000		Outturn 2008-09 £'000	
	Note	Income	Receipts	Income	Receipts
Operating income and receipts-excess A-in-A		-	-	339,322	*339,322*
Other operating income and receipts not classified as A-in-A		339,322	*339,322*	165	*81*
Total income payable to the Consolidated Fund		**339,322**	**339,322**	**339,487**	**339,403**

Explanations of variations

The reason for the large increase in income payable to the Consolidated Fund is as follows:

- At the time the 2008-09 Spring Supply Estimate was completed, the Department forecast a year end cash surplus, meaning it did not need to make provision to retain any further income.
- To ensure a taut and realistic Spring Supply Estimate, the Department decided not to increase the estimate for National Insurance Contributions (NICs) and to surrender any additional receipts received to Treasury.

Additional NICs were received of £339m, which were treated as Consolidated Fund Extra Receipts (CFERs) and surrendered to Treasury.

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

	Note	2008-09 £'000	2007-08 £'000
Operating income	12	22,636,687	20,636,365
Gross income		22,636,687	20,636,365
Income authorised to be appropriated-in-aid		(22,297,200)	(20,615,468)
Operating income payable to the Consolidated Fund	5	**339,487**	**20,897**

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

The Department did not receive any Non-operating Income - Excess A-in-A in 2008-2009 or 2007-2008

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

The Department did not receive any Non-operating income not classified as A-in-A in 2008-09 or 2007-08

9 Staff numbers and related Costs

9.1 Staff costs consist of

					2008-09 £'000	2007-08 £'000
	Total	Permanently employed staff	Others	Ministers	Special Advisers	Total
Salaries and Wages	7,045,242	6,188,770	856,066	279	127	6,416,340
Social Security costs	459,945	447,076	12,831	26	12	426,005
NHS Pension	771,363	755,727	15,606	-	30	703,774
Other pension costs	30,068	29,558	510	-	-	43,669
Sub-total	**8,306,618**	**7,421,131**	**885,013**	**305**	**169**	**7,589,788**
Less recoveries in respect of Outward Secondments	(11,554)	(11,554)	-	-	-	**(10,473)**
Total Net Costs *	**8,295,064**	**7,409,577**	**885,013**	**305**	**169**	**7,579,315**
* Of which Core Department is	270,437	130,267	139,696	305	169	287,669

Staff costs does not include £28,742,000 of capitalised costs.

Principal Civil Service Pension Scheme (PCSPS)

The Principal Civil Service Pension Scheme (PCSPS) to which most of the core Department's employees are members is an unfunded multi-employer defined benefit scheme which prepares its own scheme statements, but the Department of Health is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found on the Civil Service Pensions website (www.civilservice-pensions.gov.uk).

For 2008-09, normal employer contributions of £22,844,975 (2007-08 £21,789,000) were payable to the PCSPS at rates in the range 17.1 per cent to 25.5 per cent (2007-08 of 17.1 per cent to 25.5 per cent) pensionable pay, based on salary bands. Employer contribution rates are reviewed every four years following

a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining on or after 1 October 2002 could opt to open a partnership account, a stakeholder pension with an employer contribution. For employees joining on or after 30 July 2007, the defined benefit scheme open to them (nuvos) is based on pension building up at 2.3% of pensionable earnings each scheme year, rather than on final salary. From the same date arrangements were introduced for partial retirement, which were extended to classic, classic plus and premium scheme members on 1 March 2008.

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

NHS Pension Scheme

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

a)Full actuarial (funding) valuation
The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) FRS17 Accounting valuation
In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 with summary global member and accounting data. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

Scheme Provisions as at 31 March 2009

The scheme is a 'final salary' scheme.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the OCS at the time the employer commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made. From 1 April 2008 a voluntary additional pension facility becomes available, under which members may purchase up to £5,000 per annum of additional pension at a cost determined by the actuary from time-to-time.

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

Existing members at 1 April 2008

Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there is the opportunity of giving up some of the pension to increase the retirement lump sum. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

New entrants from 1 April 2008

Annual pensions for new entrants from 1 April 2008 will be based on 1/60th of the best three-year average of pensionable earnings in the ten years before retirement. Members wishing to obtain a retirement lump sum may give up some of this pension to obtain a retirement lump of up to 25% of the total value of their retirement benefits. Survivor pensions will be available to married and unmarried partners and will be equal to 37.5% of the member's pension.

Retirements due to ill-health

During 2008-09 there were 348 early retirements from Primary Care Trusts and Strategic Health Authorities on the grounds of ill-health (2007-08:380). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and bourn by the NHS Pensions Scheme) will be £18,864,000 (2007-08: £17473,000).

9.2 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the Department as well as in agencies and other bodies included within the consolidated Departmental Resource Account.

					2008-09 Number	2007-08 Number
	Total	Permanent staff	Others	Ministers	Special Advisers	Total
Core Department	2,899	2,179	712	6	2	2,844
Connecting for Health	1,407	27	1,380	-	-	1,444
Primary Care Trusts	209,498	192,418	17,080	-	-	196,305
Strategic Health Authorities	3,149	2,455	694	-	-	2,771
Special Health Authorities	4,387	3,941	446	-	-	4,269
Others	288	257	31	-	-	284
Total whole time equivalent persons	**221,628**	**201,277**	**20,343**	**6**	**2**	**207,917**

10 Other administration costs

	Note	2008-09 £'000	2007-08 £'000
Rental under operating leases:			
Hire of plant and machinery		303	101
Other operating leases		10,285	12,960
Research and Development Expenditure		229	274
Non cash items (See Note b below):			
Depreciation		9,848	15,413
Amortisation		5,552	208
Profit on disposal of fixed assets		-	(4)
Loss on disposal of fixed assets		73	-
Impairment/permanent diminution of asset values		114	-
Cost of capital charges		3,460	3,421
Auditors' remuneration	a	565	542
Provision provided for in year	21	62	3,586
Unwinding of discount on provisions	21	494	535
Other non-cash		-	(626)
Building and related costs		14,962	17,514
General office expenditure		23,615	26,394
Other expenditure		29,661	26,910
Total		**99,223**	**107,228**

Note a-The audit fee represents the cost for the audit of the Department's Consolidated Accounts and the Summarised Accounts of the NHS carried out by the Comptroller and Auditor General. Of the total audit fee of £565,000, £65,000 relates to work undertaken in preparation for IFRS implementation in 2009-10. This amount does not include fees in respect of non-audit work.

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

	2008-09 £'000	2007-08 £'000
Other administration costs - non-cash items (Note 10)	20,168	23,075
Programme costs - non-cash items (Note 11)	4,691,612	6,038,116
Less non-cash income: -deferred donation income released from the Donated Asset Reserve	(7,553)	(7,316)
Total non-cash transactions	**4,704,227**	**6,053,875**

11 Programme Costs

	Note	2008-09 £'000 Core Department	2008-09 £'000 Consolidated	2007-08 £'000 Core Department	2007-08 £'000 Consolidated
Current grants and other current expenditure		6,414,096	82,471,258	6,638,678	78,322,697
Rental under operating leases:					
Hire of plant and machinery		29	15,043	31	12,425
Other operating leases		9,691	311,006	8,916	247,003
Interest Charges		-	13,454	6	12,242
PFI Service Charges		-	72,526	-	63,008
Research and Development expenditure		845,801	845,801	801,392	801,392
Non cash items (See Note b above):					
Depreciation		45,702	376,553	99,900	423,879
Amortisation		451,475	458,189	145,301	150,136
Profit on disposal of fixed assets		(10,644)	(15,083)	(19,706)	(42,018)
Loss on disposal of fixed assets		9,004	14,385	25,040	33,825
Impairment/permanent diminution of asset values		6,507	97,209	26,948	112,886
Cost of capital charges		1,159,498	754,864	1,195,789	876,372
Provision provided for in year	21	704,427	2,916,567	683,507	4,419,607
Unwinding of discount on provisions	21	33,147	73,262	30,650	68,052
Other Non-cash expenditure		15,525	15,666	(4,741)	(4,623)
Total		**9,684,258**	**88,420,700**	**9,631,711**	**85,496,883**

	2008-09 £'000	2007-08 £'000
Auditor's Remuneration - Audit Fees	37,551	37,927
Auditor's Remuneration - Other Fees	5,341	5,383

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

12 Income

Operating Income analysed by classification and activity, is as follows:				**2008-09 £'000**	**2007-08 £'000**
	RfR1	**RfR2**	**RfR3**	**Total**	**Total**
Administration Income:					
Allowable within the administration cost limit	-	5,191	-	5,191	5,585
Not allowable within the administration cost limit	-	10	-	10	339
	-	5,201	-	5,201	5,924
Programme Income:					
Fees and charges to external customers	137,108	-	-	137,108	128,424
Fees and charges to other departments	81,354	-	-	81,354	(324,172)
Prescription, dental and ophthalmic charges	1,030,329	-	-	1,030,329	970,541
National Insurance Contribution	18,941,620	-	-	18,941,620	17,230,732
Rental Income (operating cost and finance leases)	1,120	-	-	1,120	-
Other	2,366,358	73,597	-	2,439,955	2,624,916
	22,557,889	73,597	-	22,631,486	20,630,441
Total Income*	**22,557,889**	**78,798**	**-**	**22,636,687**	**20,636,365**
* Of which Core Department is	1,395,577	78,688	-	1,474,265	1,355,496

13 Analysis of net operating cost by spending body

			2008-09 £'000	**2007-08 £'000**
	Estimate	**Outturn**	**Outturn**
Spending body:			
Core Department	233,483	228,364	235,585
Purchasing and Supplies Agency	29,173	35,594	26,509
Entities within departmental boundary	72,504,803	71,412,056	69,233,125
Local authorities	1,434,305	1,411,548	1,916,447
Other bodies	1,467,693	1,090,738	1,135,395
Net Operating Cost	**75,669,457**	**74,178,300**	**72,547,061**

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

14 Tangible fixed assets

	Land	Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2008	2,492,257	4,332,745	39,018	802,419	223,848	160,043	294,256	15,370	8,359,956
Additions-purchased	51,541	263,926	3,667	197,850	216,912	23,936	39,306	1,458	798,596
Additions-donated	-	2,427	-	43	1,359	527	769	16	5,141
Impairment	(128,157)	(101,297)	(43)	(164)	(1,022)	(6)	(3)	-	(230,692)
Transfers	2,148	2,203	-	-	(142)	-	(95)	-	4,114
Reclassifications	8,608	109,054	5,369	93,857	(198,419)	(8,131)	7,653	672	18,663
Revaluation and indexation	(388,975)	(116,003)	(2,153)	(26)	(1,155)	2,236	4,605	134	(501,337)
Disposals	(51,399)	(89,010)	(928)	(26,487)	(1,469)	(6,169)	(8,626)	(1,342)	(185,430)
At 31 March 2009	**1,986,023**	**4,404,045**	**44,930**	**1,067,492**	**239,912**	**172,436**	**337,865**	**16,308**	**8,269,011**
Depreciation									
At 1 April 2008	-	454,346	9,647	358,303	-	75,012	147,103	10,667	1,055,078
Charged in year	-	183,877	1,754	151,065	-	15,187	33,057	1,461	386,401
Impairment	-	66,728	15	2,543	-	1,489	2,211	484	73,470
Transfers	-	(21)	-	-	-	-	(54)	(1)	(76)
Reclassifications	-	7,093	363	15,845	-	(12,038)	(787)	(99)	10,377
Revaluation and indexation	-	(7,375)	(9)	793	-	1,104	2,250	91	(3,146)
Disposals	-	(9,857)	(901)	(25,859)	-	(5,527)	(7,964)	(1,296)	(51,404)
At 31 March 2009	**-**	**694,791**	**10,869**	**502,690**	**-**	**75,227**	**175,816**	**11,307**	**1,470,700**
Net Book Value At 31 March 2009	**1,986,023**	**3,709,254**	**34,061**	**564,802**	**239,912**	**97,209**	**162,049**	**5,001**	**6,798,311**
At 31 March 2008	2,492,257	3,878,399	29,371	444,116	223,848	85,031	147,153	4,703	7,304,878
Asset financing:									
Owned	1,971,320	3,495,966	32,975	564,802	229,406	90,743	148,019	5,001	6,538,232
Finance Lease	14,703	210,954	1,086	-	-	6,466	14,030	-	247,239
On-balance sheet PFI contracts	-	1,900	-	-	462	-	-	-	2,362
PFI residual imterests	-	434	-	-	10,044	-	-	-	10,478
Net book value at 31 March 2009	**1,986,023**	**3,709,254**	**34,061**	**564,802**	**239,912**	**97,209**	**162,049**	**5,001**	**6,798,311**

The net book value of land and buildings at 31 March 2009 comprises:	
Freehold	5,358,986
Long leasehold	322,245
Short leasehold	48,107
Total	**5,729,338**

The net book value of tangible fixed assets comprises:

	Land	Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Core Department 2008-09	188,062	107,196	3,304	264,065	49,214	6,958	537	-	**619,336**
Other NHS Bodies 2008-09	1,797,961	3,602,058	30,757	300,737	190,698	90,251	161,512	5,001	**6,178,975**
Core Department 2007-08	202,543	129,767	3,310	174,859	79,702	7,802	21	-	**598,004**
Other NHS Bodies 2007-08	2,289,714	3,748,632	26,061	269,257	144,146	77,229	147,132	4,703	**6,706,874**

15 Intangible Fixed Assets

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

	2008-09 £'000
Cost or valuation	
At 1 April 2008	1,803,511
Additions-purchased	561,673
Additions-Donated	224
Impairment	-
Transfers	142
Reclassification	(17,639)
Revaluation and indexation	9
Disposals	(299)
At 31 March 2009	**2,347,621**
Amortisation	
At 1 April 2008	480,640
Charged in year	463,741
Impairment	392
Transfers	(5)
Reclassification	(9,357)
Disposals	(224)
At 31 March 2009	**935,187**
Net book value at 31 March 2009	**1,412,434**
Net book value at 31 March 2008	1,322,871
Analysis of intangible fixed assets	
The net book value of intangible fixed assets comprises:	
Core Department at 31 March 2009	1,391,106
Other NHS Bodies 31 March 2009	21,328
Core Department at 31 March 2008	1,305,717
Other NHS Bodies 31 March 2008	17,154

As a result of the termination of the Fujitsu contract for the "South" on 28th May 2008, there will be a requirement at a future date to assess the risk of impairment to the Fixed Assets created under the terminated

contract. There will be no impairment in 2008-09 as the transfer, and hence the assessment of any impairment, will not be undertaken until the point of transfer to the new contractor. The transfer is likely to be during the financial year 2009-10. The Fixed Asset value as at 31/3/09 is £48,755,000.

16 Financial Assets

	NHS Trusts Public Dividend Capital (PDC)	NHS Loans	Foundation Trusts (PDC)	Foundation Trusts Loans	In Other Bodies PDC	In Other Bodies Loan	In Other Bodies Share Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as At 1 April 2008	14,721,836	610,649	7,791,446	155,431	1,328	546,353	224,570	24,051,613
Issued:								
To newly established bodies	-	-	-	-	-	-	-	-
To existing bodies	422,145	228,720	141,893	130,351	-	4,837	-	927,946
Repaid:								
By continuing bodies	(580,656)	(256,316)	(25,159)	(26,300)	-	(1,480)	-	(889,911)
Written off:								
By or on behalf of dissolved bodies*	-	-	-	-	-	-	-	-
Other:								
Revaluation	-	-	-	-	-	14,223	26,702	40,925
Loan repayable within 12 months transferred to debtors	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	(2,922)	-	(2,922)
Reclassification	(2,134,900)	(25,897)	2,145,723	35,576	-	-	-	20,502
Balance as at 31 March 2009	**12,428,425**	**557,156**	**10,053,903**	**295,058**	**1,328**	**561,011**	**251,272**	**24,148,153**
Investments held by Core Department	12,428,425	557,156	10,053,903	295,058	1,328	533,417	230,054	24,099,341
Investments held by other NHS bodies	-	-	-	-	-	27,594	21,218	48,812
The Department can analyse its investments in other bodies as follows:								**Percentage Shareholding**
MHRA (Medicines and Healthcare products Regulatory Agency)					1,328	1,407	500	100%
Community Health Partnerships					-	10,000	76,100	100%
Plasma Resources UK Ltd					-	5,003	153,448	100%
Credit Guarantee Fund (CGF)					-	496,924	-	-
SBS					-	19,500	6	50%
Social Enterprise Loan					-	583	-	-

In addition Primary Care Trusts have investments of £36,808,000 in LIFT companies. Details of their investments can be found in their individual accounts. The Information Centre also has an investment of £12,000,000 in a Joint Venture arrangement known as Dr Foster Intelligence.

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

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

	NHS Trusts	Foundation Trusts	Medicines and Healthcare products Regulatory Agency	Plasma Resources UK Limited	Community Health Partnerships	Joint Ventures SBS
	£'000	£'000	£'000	£'000	£'000	£'000
Net Assets at 31 March 2009	18,142,828	17,089,900	40,076	30,056	43,864	(728)
Turnover	30,153,679	22,765,400	112,812	81,519	2,836	12,793
Surplus/profit for the year (before financing)	940,358	684,400	26,212	15,823	(1,786)	(1,381)

The figures for Plasma Resources UK are for its financial year end of 31 December 2008 and those for SBS for the eight months ended 31 December 2008.

The figures for Foundation Trusts and Community Health Partnerships are based on unaudited 2008-09 data.

17 Stocks and work in progress

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Stocks	571,847	656,905	337,403	409,776
	571,847	**656,905**	**337,403**	**409,776**

18 Debtors

18.1 Analysis by type

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Trade debtors	83,150	720,838	93,217	422,920
Capital debtors	-	7,245	-	40,222
Other debtors	74	323,388	122,851	784,272
Consolidated Fund Extra Receipts Receivable	84	84	1	1
Other prepayments and accrued income	329,763	620,367	291,528	909,912
Current part of PFI contracts	-	161	-	-
	413,071	**1,672,083**	**507,597**	**2,157,327**
Amounts falling due after more than one year:				
Trade debtors and advances for house purchases	-	8,823	-	3,610
Deposits and advances	-	-	716	716
Capital debtors	-	7,021	-	7,277
Other debtors	129,252	148,048	113,384	141,867
Prepayments and accrued income	17,423	33,550	20,000	33,420
	146,675	**197,442**	**134,100**	**186,890**
Total debtors	**559,746**	**1,869,525**	**641,697**	**2,344,217**

18.2 Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£'000	£'000	£'000	£'000
	2008-09	2007-08	2008-09	2007-08
Balances with other central government bodies	14,537	49,695	-	-
Balances with local authorities	235,846	333,563	4,030	-
Balances with NHS Trusts	331,195	383,721	34	-
Balances with Public Corporations and Trading Funds	5,746	207	1,763	-
Subtotal: Intra-government balances	**587,324**	**767,186**	**5,827**	**-**
Balances with bodies external to government	1,084,759	1,390,141	191,615	186,890
Total debtors at 31 March 2009	**1,672,083**	**2,157,327**	**197,442**	**186,890**

19 Cash at bank and in hand

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance as at 1 April	2,245,086	2,446,682	1,292,394	1,438,492
Net change in cash balance	(568,585)	(700,281)	952,692	1,008,190
Balance at 31 March	**1,676,501**	**1,746,401**	**2,245,086**	**2,446,682**
The following balances at 31 March were held at:				
Office of HM Paymaster General	1,676,500	1,740,500	2,245,086	2,441,718
Commercial banks and cash in hand	1	5,901	-	4,964
Balance at 31 March	**1,676,501**	**1,746,401**	**2,245,086**	**2,446,682**

20 Creditors

20.1 Analysis by type

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Bank Overdraft	-	4,203	-	4,624
VAT	1,495	2,168	-	203
Other taxation and social security	3,284	106,167	3,140	74,881
Trade creditors	59,192	4,032,355	37,753	4,271,866
Capital creditors	240,365	332,586	595	89,997
Other creditors	28,573	292,418	1,846	290,003
Accruals and deferred income	669,144	2,090,385	626,179	1,881,160
Current part of finance lease	-	9,781	-	7,844
Amount issued from the Consolidated Fund for supply but not spent at year end	1,702,795	1,702,795	2,421,161	2,421,161
Consolidate fund extra receipts due to be paid to the Consolidated Fund - Received and Receivable	165	165	20,897	20,897
Excess cash receipts surrenderable to the Consolidated Fund	39,322	39,322	-	-
Current part of imputed finance lease element of on balance sheet PFI contracts	-	328	-	-
	2,744,335	**8,612,673**	**3,111,571**	**9,062,636**
Amounts falling due after more than one year:				
Finance leases	-	193,131	-	162,269
Trade creditors	-	13,413	-	4,302
Other Creditors	183,661	212,873	182,075	195,707
Imputed finance lease element of on balance sheet PFI contracts	-	4,871	-	-
	183,661	**424,288**	**182,075**	**362,278**

20.2 Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£'000	£'000	£'000	£'000
	2008-09	2007-08	2008-09	2007-08
Balances with other central government bodies	1,746,752	118,215	348	-
Balances with local authorities	200,305	170,460	7,798	-
Balances with NHS Trusts	1,203,765	1,386,903	13,092	-
Balances with Public Corporations and Trading Funds	34,177	98	-	-
Subtotal: Intra-government balances	3,184,999	1,675,676	21,238	-
Balances with bodies external to government	5,427,674	7,386,959	403,050	362,278
Total creditors at 31 March	**8,612,673**	**9,062,636**	**424,288**	**362,278**

21 Provisions for liabilities and charges

	Core Department					Consolidated					
	Early departure costs £'000	Injury Benefits £'000	EEA medical costs £'000	Other £'000	Total £'000	Early departure costs £'000	Injury Benefits £'000	EEA medical costs £'000	Clinical Negligence £'000	Other £'000	Total £'000
Balance At 1 April 2008	76,645	647,698	716,616	169,190	1,610,149	400,843	647,698	716,616	11,910,823	696,371	14,372,351
Provided in the year	1,376	60,137	584,482	93,888	739,883	19,053	60,137	584,482	2,609,194	271,690	3,544,556
Provisions utilised in the year	(10,056)	(50,217)	(622,298)	(58,058)	(740,629)	(66,021)	(50,232)	(622,298)	(769,071)	(209,537)	(1,717,159)
Provisions not required written back	(1,996)	(8,898)	-	(24,500)	(35,394)	(9,284)	(8,883)	-	(448,399)	(161,361)	(627,927)
Unwinding of discount	1,701	14,230	15,766	1,944	33,641	8,573	14,230	15,766	32,073	3,114	73,756
Balance as at 31 March 2009	**67,670**	**662,950**	**694,566**	**182,464**	**1,607,650**	**353,164**	**662,950**	**694,566**	**13,334,620**	**600,277**	**15,645,577**

Clinical Negligence

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

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

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

Ignoring the one off £1.5 billion increase noted in the 2007-08 accounts, the movement in clinical negligence provision during 2008-09 (taking account of actuarial estimates and new claims) is similar to the underlying movement recorded in 2007-08.

Clinical negligence provisions in the accounts of the NHSLA as at 31 March 2009 include £42,452,000 for the RHA scheme, £2,026,335,000 under the ELS and £11,265,833,000 for CNST.

Of the total £13,334,620,000 clinical negligence provisions, £1,389,174,000 is expected to be payable within 1 year, £3,994,278,000 in 1 to 5 years and £7,951,168,000 after 5 years. This estimate is based on the anticipated timing and progress through the legal process.

Early Departure

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

The provision mainly relates to early retirement liabilities in Primary Care Trusts totalling £277,679,000. Of the total, £30,641,000 is expected to be payable within 1 year, £112,108,000 in 1 to 5 years and £134,930,000 after 5 years.

Further amounts of £4,662,000 are included in Strategic Health Authorities of which £665,000 is expected to be payable within 1 year, £1,974,000 in 1 to 5 years, and £2,023,000 after 5 years, £3,153,000 in Special Health Authorities and Agency of which £581,000 is expected to be payable within 1 year, £1,118,000 in 1 to 5 years and £1,454,000 after 5 years and £67,670,000 in the Department of Health, of which £9,085,000 is expected to be payable within 1 year, £27,346,000 in 1 to 5 years and £31,239,000 after 5 years.

Injury Benefits

This Account provides for the future costs of permanent Injury Benefits awarded up to April 1997, to NHS staff injured in the course of their duties. From this date the respective NHS body which employed the injured person has been liable for the costs. The Injury Benefit awards are guaranteed minimum income levels in nature and are granted for the life of the individual. The award is based on an assessment of the nature of the injury and the effect on the earning capacity of that individual as a result. Total claim provided for is £662,950,000 of which £45,273,000 is expected to be payable within 1 year, £171,481,000 in 1 to 5 years and £446,196,000 after 5 years.

EEA Medical Costs

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

The total cost provided for is £694,566,000 of which £248,138,000 is expected to be payable within 1 year and £446,428,000 in 1 to 5 years.

Other

This account has other provisions of £600,277,000. These include the following.

Provision has been made for future support for patients who contracted HIV from contaminated blood supplies. Total claim provided for is £32,465,000 of which £4,000,000 is expected to be payable within 1 year, and £15,157,000 in 1 to 5 years and £13,308,000 after 5 years.

Other legal claims against Primary Care Trusts are £31,621,000 of which £11,949,000 is expected to be payable within 1 year, £7,984,000 in 1 to 5 years and £11,688,000 after 5 years. Further amounts of £8,337,000 are included in Strategic Health Authorities, of which £7,443,000 is expected to be payable within 1 year, £894,000 in 1 to 5 years.

Restructuring provisions by Primary Care Trusts are £15,364,000 of which £11,159,000 is expected to be payable within 1 year, £3,186,000 in 1 to 5 years and £1,019,000 after 5 years. Further amounts of £4,972,000 are included in Strategic Health Authorities, of which £4,972,000 is expected to be payable within 1 year.

This Account provides for a scheme for persons infected by Hepatitis C contracted through blood and blood products in the course of treatment by the NHS. The amount provided is £41,958,000 of which £7,000,000 is expected to be payable within 1 year, £26,525,000 in 1 to 5 years and £8,433,000 after 5 years.

Other miscellaneous provisions are £465,560,000 of which £298,927,000 payable within 1 year, £117,128,000 in 1 to 5 years and £49,505,000 after 5 years.

22 General Fund

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

		2008-09 £'000		2007-08 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April		23,809,817	11,051,206	23,412,465	13,603,372
Net Parliamentary Funding					
Draw Down	24.5	7,167,585	71,587,705	8,920,541	70,048,220
Deemed		2,421,161	2,421,161	1,031,790	1,031,790
Year end adjustment					
Supply Creditor - current year		(1,702,795)	(1,702,795)	(2,421,161)	(2,421,161)
Net Transfer from Operating Activities					
Net Operating Cost	2	(8,579,653)	(74,178,300)	(8,671,112)	(72,547,061)
CFERs repayable to Consolidated Fund		(339,487)	(339,487)	(20,897)	(20,897)
Non Cash Charges					
Cost of Capital	10,11	1,162,958	758,324	1,199,210	879,793
Auditors' remuneration	10,11	565	621	542	542
PDC Investment adjustment		10,544	10,544	336,245	336,245
Transfers from Revaluation Reserve	23.1	-	(14,426)	24,405	109,276
Other Transfers		-	34,622	(2,211)	31,087
Balance at 31 March		**23,950,695**	**9,629,175**	**23,809,817**	**11,051,206**

23 Reserves

23.1 Revaluation Reserve

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

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	421,263	2,881,254	325,924	2,519,902
Arising on revaluation during the year (net)	10,273	(494,597)	119,744	504,034
Impairment	-	(210,681)	-	(33,406)
Transferred to General Fund in respect of realised element of revaluation reserve	-	14,426	(34)	(84,905)
Transferred to General Fund on disposal	-	-	(24,371)	(24,371)
Balance at 31 March	**431,536**	**2,190,402**	**421,263**	**2,881,254**

23.2 Donated assets reserve

The donated asset reserve reflects the net book value of assets donated to the Department or other bodies within the Resource Account boundary.

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	-	150,312	-	142,782
Additions arising in year	-	6,477	-	4,533
Revaluation and indexation	-	(6,495)	-	9,302
Release to the Operating Cost Statement in respect of:				
- Depreciation	-	(7,547)	-	(6,897)
- Disposals	-	(6)	-	(419)
Other movements	-	(13,127)	-	1,011
Balance at 31 March	**-**	**129,614**	**-**	**150,312**

24 Notes to the Consolidated Cash Flow Statement

24.1 Reconciliation of operating cost to operating cash flows

	Notes	2008-09 £'000	2007-08 £'000
Net operating cost	13	74,178,300	72,547,061
Adjustment for non-cash transactions	10	(4,704,227)	(6,053,875)
Increase/(Decrease) in Stock		247,129	(46,394)
(Decrease)/Increase in Debtors		(474,691)	22,780
less movements in debtors relating to items not passing through the OCS		33,233	116,253
Decrease/(Increase) in creditors		387,953	(1,312,622)
less movements in creditors relating to items not passing through the OCS		(424,809)	863,311
Use of provisions	21	1,717,159	1,469,926
Net cash outflow from operating activities		**70,960,047**	**67,606,440**

24.2 Analysis of capital expenditure and financial investment

	Notes	2008-09 £'000	2007-08 £'000
Tangible Fixed assets additions	14,15	763,573	1,301,192
Intangible Fixed assets additions		321,308	-
Proceeds of disposals of fixed assets		(167,959)	(437,387)
Purchase of Investments	16	927,946	1,427,535
Proceeds from disposal of Investments	16	(889,911)	(1,255,930)
Transfer of assets		51,664	18
Net cash outflow from investing activities		**1,006,621**	**1,035,428**

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

	Capital expenditure	Loans and Investments	A-in-A	Net total
	£'000	£'000	£'000	£'000
Request for resources 1	1,063,600	927,946	(1,057,870)	933,676
Request for resources 2	21,281	-	-	21,281
Net movement in debtors/creditors	275,388	-	33,233	308,621
Total 2008-09	**1,360,269**	**927,946**	**(1,024,637)**	**1,263,578**
Total 2007-08	**1,156,313**	**1,427,535**	**(1,577,064)**	**1,006,784**

24.4 Analysis of financing

		2008-09	2007-08
	Notes	£'000	£'000
From the Consolidated Fund (Supply)-current year	22	71,587,705	70,048,220
Advances from the Contingencies fund		-	-
Repayment to the Contingencies fund		-	-
Other		-	3,916
Net financing		**71,587,705**	**70,052,136**

24.5 Reconciliation of Net Cash Requirement to decrease in cash

		2008-09	2007-08
	Notes	£'000	£'000
Net cash requirement	4	72,306,071	68,658,849
From the Consolidated Fund (Supply)-current year	24.4	(71,587,705)	(70,048,220)
Amount due to the Consolidated Fund received in prior year and paid over		20,897	397,877
Amount due to the Consolidated Fund -received and not paid over		(39,403)	(20,897)
Other		-	-
Decrease/(increase) in cash		**699,860**	**(1,012,391)**

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

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

	2008-09	2007-08
	£m	£m
Objective 1-Better health and well being for all	30,279	30,188
Objective 2-Better care for all	65,314	61,840
Other	988	913
	96,581	**92,941**

This Note apportions costs across the Department's objectives for 2008-09 as agreed in the 2007 Spending Review. The PSA targets associated with the objectives are detailed in paragraph 8.19 of the management commentary in the Annual Report above.

Costs have been apportioned using the best available data, primarily:

- programme budgeting data which collects NHS costs by disease;
- reference costs that record costs of hospital admissions and treatments;
- prescription costs;
- personal social services expenditure as recorded.

The programme budgeting and reference cost data sources are from 2007-08 and all other sources from 2008-09. Spend in other consists of EEA medical costs, Welfare Foods and central department administration spend.

26 Capital Commitments

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Contracted capital commitments at 31 March 2009 for which no provision has been made	2,913,320	3,054,986	3,262,665	3,332,424

The vast majority of Core Department capital commitments relate to contracts entered into by Connecting for Health for the delivery of the National Programme for IT (see note 29 for further details). The Department has a Captal Commitment for the purchase of residual interests in ISTC schemes. The total capital commitment is £188m falling due under leases over the next 5 years.

27 Commitments under leases

27.1 Operating leases

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

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Obligations under operating leases comprises:				
Land and buildings:				
Expiry within 1 year	6,065	20,235	-	13,051
Expiry after 1 year but not more than 5 years	5,563	52,156	11,106	58,283
Expiry thereafter	10,901	241,259	12,106	232,927
	22,529	**313,650**	**23,212**	**304,261**
Other:				
Expiry within one year	173	12,176	41	14,873
Expiry after 1 year but not more than 5 years	144	26,684	384	22,630
Expiry thereafter	-	2,090	-	162
	317	**40,950**	**425**	**37,665**

27.2 Finance leases

Obligation under finance leases are as follows.

	2008-09		2007-08	
	Core Department	Consolidated	Core Department	Consolidated
Rentals due within 1 year	7,200	7,200	-	13,625
Rentals due after 1 year but within 5 years	3,900	79,132	-	159,129
Rentals due thereafter	-	189,120	-	35,070
	11,100	**275,452**	**-**	**207,824**
Less interest element	-	(56,241)	-	(37,711)
	11,100	**219,211**	**-**	**170,113**

28 Commitments under PFI contracts

PFI Schemes deemed to be off balance sheet

In this financial year, 40 Primary Care Trusts reported off balance sheet PFI schemes over £1 million (2007-08: 38 Primary Care Trusts). The estimated capital value of these schemes over £1 million is £689,513,000 (2007-08: £512.0 million). The amount included within operating expenses for these schemes is £78,180,000 (2007-08: £63 million). Primary Care Trusts are committed to make the following payments under off balance sheet PFI contracts during 2009-10, analysed by the period during which the commitment expires

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 11 to 15 years	-	869	-	414
Expiry within 16 to 20 years	-	4,895	-	1,508
Expiry within 21 to 25 years	-	52,175	-	35,916
Expiry within 26 to 30 years	-	36,662	-	33,983
Expiry within 31 to 35 years	-	2,449	-	2,464
Expiry within 36 and beyond	-	-	-	-
	-	**97,050**	**-**	**74,285**

PFI schemes deemed to be on balance sheet

Devon PCT has entered into an on-balance sheet PFI contract. The asset is treated as an asset of the PCT. The substance of this contract is the PCT has a finance lease and payments comprise an imputed finance lease charge and a service charge. The value of assets brought on balance sheet in respect of this scheme is £1.9 million (2007-08: £2.2 million)

The total amount charged in the Operating Cost Statement in respect of on-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £297,000 (2007-08: £292,000) and the payments to which the Department is committed during 2009-10, analysed by the period during which the commitment expires, is as follows.

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Rentals due within 1 year	-	328	-	300
Rentals due within 2 to 5 years	-	1,537	-	1,406
Rentals due thereafter	-	6,081	-	6,554
	-	7,946	-	8,260
Less interest element	-	(2,747)	-	(3,125)
	-	**5,199**	**-**	**5,135**

29 Other Financial Commitments

	2008-09 £'000		2007-08 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expire within 1 year	323,133	323,133	336,987	337,831
Expire within 2 to 5 years	1,160,462	1,160,706	1,148,266	1,158,432
Expire thereafter	586,778	586,778	616,278	624,895
	2,070,373	**2,070,617**	**2,101,531**	**2,121,158**

At the balance sheet date Connecting for Health had entered into contracts which if delivered according to the terms of those contracts would result in commitments of £2,070,373,000 (2007-08: £2,101,531,000) over the next 7 years. The contracts are for National Programme for IT, which is being delivered by the NHS Connecting for Health, part of the Department of Health, which is bringing modern computing systems into the NHS to improve patient care and service. Over the life of the programme, NHS Connecting for Health will convert over 30,000 GPs in England, almost 300 hospitals and give patients access to their personal health and care information, transforming the way NHS works. The contracts are such that the obligation to pay does not arise until the suppliers have implemented the solution to the required locations and it has been accepted after a period of live running.

30 Financial Instruments

FRSs 25, 26 and 29 set out the disclosure, presentation, recognition and measurement requirements with regard to financial instruments. In particular, the Standards rquire disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. As a result of the relationship that the Department has with NHS bodies and the way those bodies are financed, the Department as a whole is not exposed to the same degree of financial risk faced by commercial or private sector business entities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 29 mainly applies. The Department has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Department in undertaking its activities. As allowed by FRS 29, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

The Department has not pledged collateral against any of its liabilities or contingent liabilities.

Liquidity Risk

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

Currency Risk

With the exception of EEA medical costs for which the Department has financial liabilities at 31 March 2009 totalling £694,565,989, bodies within the resource accounting boundary have no or a relatively small amount of foreign currency income or expenditure. EEA medical costs liabilities are payable in the local currencies of the EEA member countries, primarily Euros. The Department enters into forward contracts for the purchase of Euros for the purpose of paying EEA medical costs in-line with existing arrangements where a specific amount of Euros are required at a particular date. As at 31 March 2009 the Department had entered into forward contracts to purchase €21,500,000 on 3 June 2009, €182,900,000 on 1July 2009, €19,300,000 on 18 November 2009, €131,700,000 on 3 December 2009 and €82,000,000 on 13 January 2010.

Interest-Rate Risk

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

Credit Risk

The Department is not exposed to significant credit risk. The risk that parties to financial instruments held by the Department will fail to meet obligations is considered low.

Market Risk

The Department is not exposed to significant market risk. Currency and interest risk are mentioned above. In general terms cashflows arising from the Department's financial instruments are unlikely to be affected by market conditions.

Fair Value

The fair values of financial assets and liabilities are not materially different to their book values.

Categories of Financial Assets

The Department does not hold financial assets that are designated at fair value through profit and loss, nor does it hold investments that are classified as being held to maturity. Note 16 shows those investments that are classified as loans and receivables: investments in other bodies' share capital shown in Note 16 are categorised as available for sale.

31 Contingent Assets and Liabilities disclosed under FRS 12

31.1 Contingent Assets

The Department has no contingent assets.

31.2 Contingent Liabilities

The Department is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is large degree of uncertainty as to the Department's liability and to the amounts involved. Possible total expenditure might be estimated at £6.52 billion (2007-08: £5.98 billion), although £5.79 billion (2007-08: £5.211 billion) relating to the Clinical Negligence Scheme for Trusts (CNST), Property Expense Scheme (PES) and Liability to Third Parties Scheme (LTPS) would be expected to be met by payments receivable from NHS Trusts.

Within Primary Care Trusts' accounts at 31 March 2008, there were net contingent liabilities of £35,358,000 (2007-08: £53,681,000). These include potential liabilities for continuing care, equal pay, LIFT and data challenges to providers. Primary Care Trusts have provided for these liabilities where they can reasonably estimate the likely value of potential claims received. Where these obligations cannot be reliably estimated a contingent liability has been recorded.

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

An investigation into the administration of the injury benefits scheme began in 2006 following a decision by the Pensions Omubdsman's. As a result of the review monies were due to be paid to some 10,000 people who had not received the correct payments due to irregularities in the administration of the injury benefits scheme between 1972 and 2006. It has not been possible to make full payment to all the affected individuals in this financial year. There are 217 cases where the Department is seeking information from the Estate and around 200 people for whom the Department has no current address. An information campaign seeking claims from individuals who may also have been affected has resulted in 1136 information packs being issued and 217 claims being made. It is not possible at this stage to estimate how many of these claims will be successful nor how much benefit may be owed.

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

32.1 Quantifiable

The Department of Health has entered into the following quantifiable contingent liabilities by offering indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of FRS26. Managing Public Money requires that the full potential costs of such contracts be reported to parliament. These costs are reproduced in the table below.

	1 April 2008		Increase in year	Obligation expired in year	31 March 2009		Amount reported to Parliament by departmental Minute
	£'000	No.	£'000	£'000	£'000	No.	£'000
Guarantees:	-	-	-	-	-	-	-
Indemnities:	98,300	3	-	(1,900)	96,400	3	96,400
	98,300	**3**	**-**	**(1,900)**	**96,400**	**3**	**96,400**

32.2 Unquantifiable

The Department of Health has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 26 indeminities.

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

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

33 Losses and Special Payments and other Accounting Notes

33(a) Losses

		2008-09 Total		2007-08 Total
	Cases	£'000	Cases	£'000
Total	18,961	118,336	41,848	528,416
Details of cases over £250,000				
Cash Losses-cancelled PDC	-	-	2	359,323
Claims abandoned	-	-	-	-
Administrative write-offs	-	-	1	1,313
Fruitless payments	1	7,649	-	-

Losses include £91,182,308 National Insurance Fund Contributions allocated on a proportional basis to the Department by Revenue and Customs (HMRC). These losses occur as contributions become uncollectable from companies who cease to exist. The requirement for the Department to record a share of the losses results from us being part funded directly by such contributions. It should be noted, that the National Insurance Contribution losses is a technical requirement and the Department has no control over them at all.

	2008-09 Total		2007-08 Total	
	Cases	£'000	Cases	£'000
Store losses	2	13,144	2	47,880

The primary cause of the written off amount is unused influenza vaccine. This vaccine only has a twelve month expiry date and was not ordered by Healthcare Professionals within this period.

The secondary cause was an amount of Tuberculin PPD date expiring due before it could be used. This was a new product introduced in 2005. Usage was difficult to predict as there was no historic data and orders were lower than anticipated leading to a small amount of wastage.

A small amount of vaccine was also lost due to policy changes over the past two years which resulted in vaccine being held which could not be used before it date expired. A small amount of vaccine (28 packs) was also lost due to stock not being rotated in the warehouse in Northern Ireland.

The Department authorised write-offs relating to date expired stock items. NHS Supply Chain holds stocks of CBRN countermeasures on behalf of the Department, for use in the event of a natural emergency or terrorist attack involving chemical, biological, radiological or nuclear agents. If no such incidents occur then the stocks inevitably reach the end of their useable life and need to be disposed of and replaced with new stocks in order to maintain a measure of protection for the UK's populace. The value of stocks written-off in the year due to expiration of their shelf life was £12,773,000. This cost was borne by the Department

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33(b) Special Payments

	2008-09 Total		2007-08 Total	
	Cases	£'000	Cases	£'000
Total	1,059	31,993	1,172	30,342
Details Of Cases Over £250,000	7	26,135	9	22,527

Losses and Compensation Arising from the ISTC Programme

Termination of ISTC Contracts (£17million)

The West Midlands Diagnostic contract was terminated by the Department in the 2007-08 financial year. As noted in the Department's Resource Account 2007-08 – following the award of the contract, waiting times for diagnostics treatments in the area fell. Accordingly, patient numbers for the ISTC contract were much lower than had been anticipated and the continuation of the contract could no longer be justified on value for money grounds. The contractor's right to compensation on termination is contractual rather than discretionary and negotiations have taken place during 2007-08 and 2008-09 to arrive at a full and final settlement, the value of which had been agreed at £27 million as at 31 March 2009.

	2007/08 (£m)	2008/09 (£m)	Total (£m)
First interim payment	10.00	-	10.00
Second interim payment	-	9.35	9.35
Accrual on agreement of claim	-	7.65	7.65
Totals	**10.00**	**17.00**	**27.0**

Payments/accruals in relation to wasted bid costs for ISTC schemes (£14.7 million)

In 2007 the Department, following consultation with HM Treasury, carried out a revalidation of all schemes in wave 2 of its Independent Sector Treatment Centre procurement programme. As a result of this revalidation the Department announced in November 2007 that a number of schemes would be cancelled.

The Department's Resource Account Accounts for the year 2007-08 set out details of payments for wasted costs made in accordance with the Framework in that year. In 2008-09, the Department has continued to receive and validate claims for ex-gratia compensation payments in accordance with its "Framework for the identification and validation of claims arising from phase 2 ISTC schemes cancelled or re-scoped as a result of the revalidation" published in March 2008. Details are set out in the following table:

	Paid (£m)	Accrued (£m)	Totals (£m)
Clinicenta Ltd – London North Electives	5.4	-	5.4
Clinicenta Ltd – Hertfordshire Electives	5.0	-	5.0
PHG – Hampshire and Isle of Wight Electives	1.1	-	1.1
Accrual	-	3.2	3.2
Totals	**11.5**	**3.2**	**14.7**

An accrual has been made of £3.2 million, representing the aggregate of further claims where the validation of the claim has been completed, but final settlement of the claim had not occurred at the year end.

Each of the London North, Hertfordshire and Hampshire/Isle of Wight schemes were schemes that had been significantly re-scoped as a result of the 2007 revalidation, resulting in wasted cost being incurred. Each of these schemes has since reached financial close.

34 Related Party Transactions

The Department is the parent of the executive agencies and other bodies within the group and sponsor of trading funds, executive non-Departmental public bodies disclosed in Note 37. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition the Department has had a small number of transactions with other Government Departments and other central Government bodies.

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

	Sub Note	Purchases from related party 2008-09 £000's	Debtors with related party 2008-09 £000's	Sales to related party 2008-09 £000's
Cambridge University	1,5	1,726	-	-
Picker Europe	2	139	-	-
Healthcare Commission	3	66,584	64	160
Job Centre Plus (Department of Works and Pensions)	4	17,067	251	3,261
Marie Curie	6	2,476	737	737
Thames Valley University	7	171	-	-
University of Birmingham	8	7,178	-	-
Kings Fund	9	1,700	-	5
Medway Hospital NHS Trust	10	31,377		120
SBS	11	3,598	37	38

Sub Note

1) Sally Davies' husband is employed by Cambridge University as an academic clinician
2) Bruce Keogh is a Trustee for the charity Picker Europe
3) Bruce Keogh was the Commissioner of the Healthcare Commission
4) Clare Chapman is a non executive director of Job Centre Plus
5) Clare Chapman is a Board Advisor on Cambridge University Judge Business School
6) Chris Beasley is also a Trustee for Marie Curie.
7) Chris Beasley is a Pro-Vice Chancellor for Thames Valley University
8) Mark Britnall is a Senior Fellow at HMSC - University of Birmingham.
9) Mark Britnell is a Senior Associate at Kings Fund
10) Shared Business Services is a joint venture between the Department of Health and Steria

35 Third Party Assets

	31 March 2009	Gross inflows	31 March 2008
	£'000	£'000	£'000
Monetary assets			
Bank balances	31,584	18,865	12,719

The above monetary assets, at 31 March 2009, are £2,188,000 which is held by PCTs at bank and in hand in respect of monies held by PCTs on behalf of patients and £29,396,000 which is held by the Department of Health in an Escrow account.

36 Post Balance Sheet Events

The Accounts were authorised for issue by the Accounting Officer on the 13th July 2009.

On 23 April 2009, it was announced that a new Commercial Operating Model for the Department for Health would be implemented which would entail that NHS PASA will be disaggregated and its functions be transferred to specific areas of the procurement landscape thereby adding greater scope, scale and impact to the procurement of goods and services. The activities and functions of the Agency, along with its associated assets and liabilities, will transfer to the Department of Health and other central government organisations

37 Entities within the Departmental boundary

Ministers had some degree of responsibility for the following bodies during the year 2008-09:

Consolidated in the Department's Resource Accounts

Supply financed agencies

NHS Purchasing and Supply Agency

Other Bodies

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

*The Care Quality Commission became a legal entity on 1 October 2008 and takes up its responsibilities for the quality of health and adult social care on 1 April 2009.

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

*** Merged at 1 April 2009 to form Care Quality Commission

Not Consolidated

Trading Funds

Medicines & Healthcare Products Regulatory Agency

Executive Non-Departmental Public Bodies

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

- NHS Trusts
- Food Standards Agency
- NHS Blood and Transplant
- NHS Direct
- NHS Professionals
- Social Care Institute for Excellence
- Foundation Trusts

Annex A

GLOSSARY OF GOVERNMENTAL TERMS

Administration Cost Limit An overall limit applied to administration costs within the Department which should not be exceeded by the administration expenditure for the year.

Annually Managed Expenditure (AME) A Treasury budgetary control for spending that is generally difficult to control, large as a proportion of the Department's budget, and volatile in nature

Appropriations-in-Aid (A–in-A) Expected income that arises during the normal course of business that the Department is authorised to retain. The income is voted by Parliament in the Estimate and is available to offset against expenditure in the current financial year. Any Excess A-in-A over the authorised limit must be surrendered to the Consolidated Fund. These are included within the Operating Cost Statement and disclosed separately in the Summary of Resource Outturn.

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

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

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

Core Department. The Department of Health only. It does not include any of the bodies listed in Note 37.

Cost of Capital Charge A charge to reflect the opportunity cost of Government funding invested in assets of the Department and included to ensure that the full cost of services is reflected in departmental accounts. It is calculated at a rate of 3.5% (2007-08 3.5%) on the average net assets (capital employed) held by the Department over the year. The charge is included in the Operating Cost Statement and apportioned between administration and programme costs.

Departmental Expenditure Limit (DEL) A Treasury budgetary control for spending that is within the department's direct control and which can therefore be planned over an extended (Spending Review) period (such as the costs of its own administration, payments to third parties, etc).

Estimate A summary of the resources and cash voted by Parliament to the Department for a particular year and against which expenditure is monitored. It is analysed by Requests for Resources, each being monitored separately.

General Fund The General Fund represents the historic cost of the total assets less liabilities of the Department, to the extent that it is not represented by other reserves and financing items. It is included in Taxpayer's Equity on the Balance Sheet.

Net Cash Requirement The amount of cash required and authorised from the Consolidated Fund for the Department to carry out the functions specified in the Estimate. Actual cash used during the year is described as the outturn of the net cash requirement.

Net Resource Outturn This is the net total of income and expenditure consumed by the Department during the financial year.

Non-budget Expenditure that is not included in either DEL or AME. For Department of Health this includes, the grant in aid to non-departmental public bodies, NHS Trusts and Foundation Trusts Public Dividend Capital issues and repayments and NHS Trusts and Foundation Trusts loans and repayments and repayment of interest.

Non-operating Cost A-in-A Comprises proceeds from sales of assets and repayment of voted loans which can be retained by the Department. These are included in the Summary of Resource Outturn.

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

Request for Resources (RfR) The basic unit of Parliamentary control for which resources to the Department are granted. Each RfR within the Estimate represents an accruals based measure of expected expenditure within the Department for items which fall within that RfR. The Summary of Resource Outturn, the Operating Cost Statement and Note 2 analyse net resource outturn by RfR.

Annex B

NAO REPORTS PRINCIPALLY FOR DEPARTMENT OF HEALTH

The National Programme for IT in the NHS: Progress since 2006 (May 2008)

The report found that delivering the National Programme for IT in the NHS was proving to be an enormous challenge and far greater than envisaged at the start of the Programme. All elements of the Programme were advancing and some were complete, but the original timescales for deploying the electronic NHS Care Records Service into acute trusts, one of the central elements of the Programme, turned out to be unachievable, raised unrealistic expectations and put confidence in the Programme at risk. Progress is being made, however, and financial savings and other benefits are beginning to emerge.

The report concluded that the original vision remained intact and still appeared feasible. However, it was likely to take until 2014-15 before every NHS Trust in England had fully deployed the care records systems, four years later than the timetable published when the strategy was first launched, albeit that the date had then been described as tentative. In the North, Midlands and East area, the software had taken much longer to develop than planned, so some acute trusts have had to take an interim system. Completing the development of the system and introducing it in this area were significant challenges still to be addressed.

The NAO concluded that the priority should be to finish developing and deploying care records systems that will help NHS Trusts to achieve the Programme's intended benefits of improved services and better patient care.

Feeding back? Learning from complaints handling in health and social care (October 2008)

The report found that navigating complaints systems was not straightforward, particularly for health service users, and handling some complaints took too long. In addition there was little sharing of lessons learned from complaints or evidence that services are improving as a result.

Around 95 per cent of complaints were concluded locally and three quarters of these within 20-25 working days. NHS complaints that progressed to the second, independent review stage by the Healthcare Commission, took an average of 171 working days and social care took an average of 63 working days.

The report identified the strengths and weaknesses of the current arrangements and the issues that needed to be addressed if the ambition for a single comprehensive NHS and social care complaints system were to be realized.

Reducing Alcohol Harm: health services in England for alcohol misuse (October 2008)

The report found that alcohol-related ill-health was an increasing burden for the NHS. Alcohol misuse costs the health service in the order of £2.7 billion a year, but efforts to address it locally are not in general well-planned. The Department is however raising the profile of alcohol misuse by providing information and guidance to underpin local action, centred on encouraging PCTs to gauge their performance against the rate of alcohol-related hospital admissions.

The report also found that there was evidence that preventive services, such as 'brief advice' by GPs and health workers, could reduce alcohol consumption and help to prevent longer-term damage to health and there were some good local examples of this. Also, from September 2008 the Department provided an additional £8 million in support for such services. For people who developed severe alcohol problems, according to the report, there were considerable variations between different localities in access to specialist treatment services, and scope for better integration of hospital treatment with follow-on services such as psychiatry.

End of Life Care (November 2008)

The NAO reported that each year around half a million people die in England, three quarters of whom do so following a period of chronic illness, such as cancer or heart disease. The report found that some people approaching the end of their life receive a high quality service, but that there was room for improved coordination between health and social care services in planning and delivering end of life care.

The report found that the Department had raised the profile of end of life care within the NHS and social care services in recent years. In July 2008, the Department published a strategy to improve the care provided to adults approaching the end of their life by increasing the availability of services in the community and developing the skills of health and social care staff. To support implementation of the Strategy, the Department committed additional funding of £286 million to PCTs over 2009-10 and 2010-11.

Financial Management in the NHS: Report on the NHS Summarised Accounts 2007-08 (December 2008)

The report, jointly prepared by the NAO and the Audit Commission, said the surplus of £1.67 billion, equivalent to about one week's funding for the NHS, achieved in 2007-08 reflected good use of resources rather than a failure to deliver healthcare. The report also said that with this surplus, the Department had given a commitment that the NHS will be able to spend the surplus in future years.

The report stated that NHS organisations were performing better financially and this surplus has created an element of certainty for financial planning that has not existed in recent years. This is especially reassuring given current financial pressures throughout the economy."

NHS Pay Modernisation in England: Agenda for Change (January 2009)

The report found that the NHS had successfully transferred 1.1 million NHS employees on to a new simplified pay system. This was a substantial task which the NHS, in partnership with the trade unions, achieved in a short timescale. There were some examples of NHS trusts using Agenda for Change to help introduce new roles. However, the report said that the Department has not put enough emphasis on getting trusts to develop these new ways of working to secure the full benefits available from the new pay system, so the programme was not yet achieving value for money.

The report also stated that Agenda for Change had reduced pay administration in the NHS. The single pay system also simplified pay negotiations and made it easier to estimate staff costs and monitor budgets. The report estimated that for 2007-08 the £28 billion NHS pay bill was broadly similar to what it might have been if the programme had not been implemented, within a range of 0.6 per cent higher and 0.8 per cent lower.

Annex C

PUBLIC ACCOUNTS COMMITTEE REPORTS PRINCIPALLY FOR THE DEPARTMENT

NHS Summarised Accounts 2006-07: achieving financial balance (June 2008)

The Committee's report found that by top-slicing some budgets and holding them in reserves, by using targeted support for organisations with the most significant financial problems and by tighter management of NHS finances, The Department had helped the NHS to achieve an in-year surplus of £515 million. The Department's framework for this also included more transparent financial reporting and the use of "turnaround teams" for the most financially challenged trusts.

The Committee recommended that the Department should use benchmarking to establish the reasons behind differing financial performances in different parts of the country. It noted that East of England had been the worst performing Strategic Health Authority with a deficit of £153 million in 2006/07. However, in 2007/08, East of England was the most improved region and had moved to a surplus of £85 million.

The Committee also concluded that there was evidence that some PCTs had made financial savings by requiring their provider trusts to slow down non-essential treatment. However, the Healthcare Commission reports nationally on the "use of resources" in trusts and PCTs and its figures showed a definite increase in the percentage of organisations marked as "good" or "excellent".

Caring for vulnerable babies: the reorganisation of neonatal services in England (June 2008)

The Committee's report examined the Department on the quality and effectiveness of neonatal services in caring for these most vulnerable members of society as well as the ability of the system to meet increased demand for neonatal services, the benefits of networking neonatal units, recruitment and training of staff and the impact on health inequalities.

The Committee found that whilst there was widespread support for neonatal services to be delivered through clinical networks, these networks developed at different rates and only two out of the 23 areas had yet to establish a formal managed network. Networks had helped improve communication and co-ordination between units and had made progress in reducing the number of times babies have to be transferred long distance to obtain the necessary level of care, but there has been less progress on a key recommendation from the Department's own review – the Neonatal Intensive Care Review: Strategy for Improvement – for networks to re-designate units to ensure that the supply of intensive, intermediate and special care matches demand.

The Committee also found that there was a shortage of qualified neonatal nurses and concluded that the Neonatal Task force should work with the Strategic Health Authorities to develop a national action plan. One of the objectives of the group should be to develop targeted action plans to assist local decision making, in addressing the neonatal nursing shortages, incorporating skill mix, staffing levels, recruitment, retention and commissioning of education and training to support an appropriately skilled workforce by Autumn 2009.

Pay Modernisation – GP Contract (October 2008)

The Committee concluded that the Department succeeded in increasing the number of GPs working in the NHS above its target: more than 4,000 additional GPs from March 2003, an increase of 15%, and that it had successfully introduced a pay for performance system which had increased the consistency of care for long term conditions.

The Committee found the level of GP performance, as measured by the Quality and Outcomes Framework (QOF), exceeded estimates and led to additional expenditure but recommended further developments to the QOF for future years, e.g. aligning it to national priorities, giving more weight to health outcomes and allowing PCTs to set local priorities. The Committee noted that the contract changes agreed for 2009-10 included the reallocation of 72 QOF points, worth around £80 million, to reward GP practices for delivering a range of new interventions for their patients across seven clinical areas.

The Committee also recommended that the Department should develop a method for measuring productivity in primary care services that is supported by the NHS, HM Treasury and the Office for National Statistics.

It acknowledged that the Department has commissioned a three-year research project from the Centre for Health Economics (CHE) to take forward work on measuring NHS productivity.

The National Programme for IT in the NHS: Progress since 2006 (January 2009)

The Committee's report found that some systems were being deployed across the NHS but that completion of the Care Records Service was forecast for completion in 2014-15. The report said that Lorenzo, the care records software for the North, Midlands and Eastern regions, had not been fully deployed throughout any acute trust and only in one PCT.

The Committee also found that while the Programme had started with four Local Service Providers (LSPs) covering England, only two remained, and it concluded that the Programme's dependence on the remaining LSPs had implications for its capacity and capability.

The Committee concluded that The Department should assess whether it would be wise for trusts in the South to adopt solutions provided by the remaining Local Service Providers, taking into account the implications of the extra workload on the quality of services to trusts in their existing areas. The Department agreed that existing Local Service Providers would have to demonstrate their capacity and capability to deliver across the wider area.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID6219933 08/09 434575 19585

Printed on Paper containing 75% recycled fibre content minimum.

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

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ISBN 978-0-10-296247-5