

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

Summarised Accounts of Health Authorities and NHS Trusts in England, of the Dental Practice Board and Special Health Authorities providing central services in England, and of Funds held on Trust by Health Authorities, NHS Trusts, Special Health Authorities and Special Trustees in England, for the year ended 31 March 1997 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 127 of 1996-97).

Present pursuant to NHS Act 1977 c49 s98(4).

NHS (England)

Summarised Accounts 1996-97

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 17 JULY 1998

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Report of the Comptroller and Auditor General

Summary and Conclusions

Introduction

- 1 The NHS Executive prepare summarised accounts for the NHS covering, mainly, the £30 billion spent by 100 health authorities in purchasing health care and related services from NHS Trusts and other contractors to the health service; and the £23 billion spent by 429 NHS Trusts in delivering health care.
- 2 My report records the results of the audit examination of these summarised accounts by the National Audit Office, and the results of the audits of the individual health organisations by auditors appointed by the Audit Commission for England and Wales.
- 3 I also report on the overall performance of health authorities and NHS Trusts, and on the scale of costs, provisions and contingent liabilities facing the NHS for clinical negligence and the steps being taken to manage the risks involved.
- 4 The NHS summarised accounts for Scotland and for Wales are published in separate House of Commons papers, along with my reports on them.

Main findings and conclusions

Findings of the Appointed Auditors

- 5 On the basis of the work of the appointed auditors, I consider that accounting and financial controls across the NHS are generally sound, although, as might be expected from an operation of this complexity and scale, a number of issues have emerged from audit work which need action by the NHS Executive. I welcome the action taken by the NHS Executive to address these issues.
- 6 I welcome the enhanced disclosure of funds held on trust within the NHS. Ensuring effective control over the £1.5 billion held on trust, and the £300 million annual incoming resources, is important, and I will continue to monitor progress. Appointed auditors qualified their opinions on a significant number of underlying accounts and I therefore have to qualify my opinion on the summarised account. It is important that NHS organisations work with their appointed auditors to reduce the number of qualified opinions in future years.

Developments in Accounting and Internal Control

- 7 NHS organisations appear well placed to provide the financial information required to be consolidated into the Department of Health resource account.
- 8 Over the past few years, the NHS Executive have taken positive steps to improve governance in the NHS. I welcome their decision to require directors' statements on internal financial control in future financial statements, and to require appointed auditors to form an opinion on whether directors have provided the necessary disclosures and that it is not inconsistent with their audit findings.

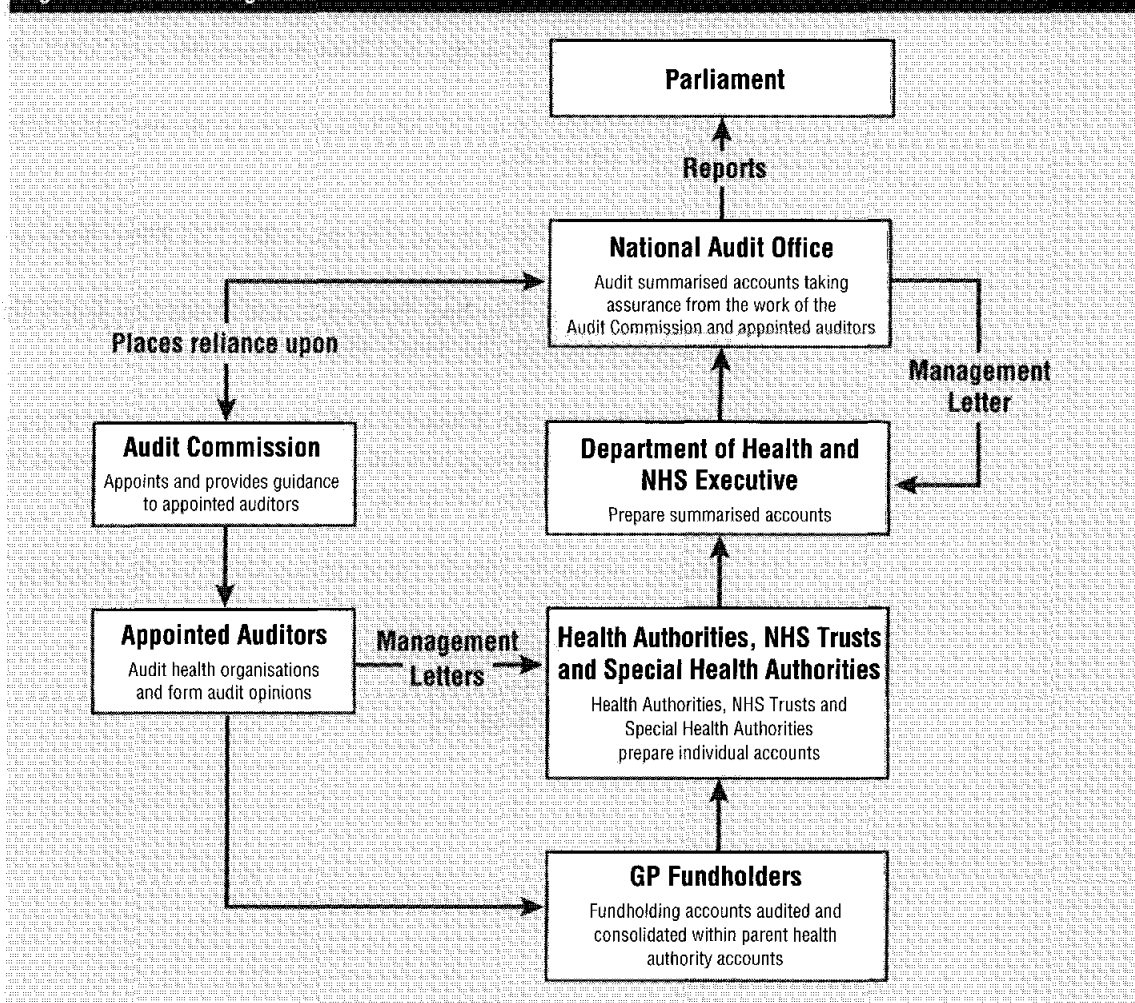
- 9 I welcome the steps taken by the Department to tackle prescription, optical and dental fraud, including the appointment of a "Fraud Supremo" in order to fight fraud more effectively.
- Financial Performance of the NHS**
- 10 Health authorities reported a deficit for the year of £238 million and an accumulated deficit at the year-end of £791 million. NHS Trusts reported a retained deficit for the year of £50 million and an accumulated surplus of £307 million.
- 11 At the end of 1996-97, the NHS Executive assessed that 42 health authorities and 54 Trusts were in serious financial difficulties. Regional offices of the NHS Executive are working with those health authorities and Trusts facing serious financial difficulties, to restore them to a sound financial position. The NHS Executive took steps during 1997-98 to revise monitoring arrangements to ensure a more consistent and effective approach across the regions.
- 12 In 1996-97, 148 Trusts failed one or more financial duty after adjusting for technical factors. The NHS Executive have taken steps to clarify and focus the financial duties on NHS Trusts, including the management and recovery of accumulated deficits in future years. For the first time in 1997-98, the NHS Executive have set income and expenditure targets for health authorities.
- 13 By the end of the third quarter of 1997-98, the NHS Executive assessed 28 health authorities and 74 Trusts as being in serious financial difficulty under their revised monitoring criteria.
- Clinical Negligence**
- 14 Liability for clinical negligence is a major challenge facing the NHS: total liability could be about £2.3 billion.
- 15 The NHS Executive have set up three schemes for funding and managing outstanding liabilities against various NHS organisations, and new liabilities arising mainly against NHS Trusts. Relatively few cases have been settled under these schemes and it is too early yet to judge the effectiveness of these arrangements.
- 16 The NHS Executive have taken action on the need, mentioned in my report last year, to improve the accounting for and disclosure of these liabilities, but more needs to be done, especially on assessing, and accounting for, incidents incurred but not reported.
- 17 I welcome the steps taken by the NHS Litigation Authority to improve the way NHS Trusts manage the risks of clinical negligence, and to re-inforce the need for effective risk management through assessment of Trusts' arrangements and by offering reduced contributions to those who adopt best practice.

continued . . .

Part 1 Basis of my audit

- 1.1 Section 98 of the National Health Service Act 1977 requires me to examine, certify and report on the NHS summarised accounts for England. This part of my report sets out the scope of my audit of the NHS summarised accounts for 1996-97.
- 1.2 Most of the funding for the health service is provided by the Department of Health and is reported, on a cash basis, in the Appropriation Account for Class XI, Vote 1 (hospital, community health, family health and related services, England), which is also subject to my audit. The summarised accounts record, largely on an accruals basis, the financial affairs of the health authorities, special health authorities and NHS Trusts to whom these funds are made available.
- 1.3 The Audit Commission are responsible for appointing external auditors to all health authorities and NHS Trusts. For 1996-97, District Audit had approximately 70 per cent of these appointments and eight leading audit firms had the remainder. These appointed auditors provide an audit opinion on the annual accounts of each health organisation, and the Department of Health and the NHS Executive summarise these accounts for my audit. Figure 1 shows the audit arrangements for the underlying and summarised accounts of the NHS.

Figure 1: Audit arrangements in the National Health Service



- 1.4 The Foreword to the NHS summarised accounts describes the basis for their preparation and the background to the individual NHS organisations in England. My examination in 1996-97 included an assessment of the reliability of the information contained in the audited accounts of the individual NHS organisations, undertaken by reviewing the work of the appointed auditors and scrutinising their reports. I also checked the preparation of the summarised accounts, from the individual accounts, by the Department of Health and the NHS Executive.
- 1.5 On the basis of my assessment of the work of the appointed auditors, and my audit at the Department of Health and the NHS Executive, I am able to give unqualified opinions on the summarised accounts for 1996-97, with the exception of the summarised account of funds held on trust. I have qualified my opinion on this account because appointed auditors have qualified their opinions on a significant number of underlying accounts. Further details of this matter are given in part 2 of my report.
- 1.6 I also examine the economy, efficiency and effectiveness with which NHS organisations have used their resources, under section 6 of the National Audit Act 1983. The results of such value for money examinations are published in separate reports made to the House of Commons under section 9 of that Act. Recent reports on issues affecting the NHS in England are:
- NHS Executive: The Purchase of the Read Codes and the Management of the NHS Centre for Coding and Classification (HC 607 1997-98);
 - The Performance of the NHS Cervical Screening Programme in England (HC 678 1997-98);
 - Managing the Millennium Threat II (HC 724 1997-98); and
 - Cost Over-runs, Funding Problems and Delays on Guy's Hospital Phase Three Development (HC 761 1997-98).
- 1.7 In part 2 of this report, I describe in more detail the findings of the appointed auditors. The remaining parts of my report address current issues concerning financial control and accounting within the NHS, namely:
- Part 3: Developments in Accounting and Internal Control;
 - Part 4: Financial Performance of the NHS; and
 - Part 5: Clinical Negligence.

continued . . .

Part 2 Findings of the appointed auditors

Introduction

- 2.1 This part of my report discusses the overall findings of the appointed auditors on the accounts of NHS organisations (paragraphs 2.2 to 2.4) and findings which led to Section 20(3) referrals to the Secretary of State and Section 15(3) reports (paragraphs 2.5 and 2.7). I then consider the findings of the appointed auditors on the accounts of funds held on trust (paragraphs 2.8 to 2.17). Finally, I draw attention to the Audit Commission's value for money work (paragraph 2.18).

Overall findings

- 2.2 In 1996-97 the appointed auditors gave unqualified opinions on the accounts of all individual NHS Trusts and health authorities. However in some 57 cases, auditors drew attention to the financial health of the Trust or health authority or other matters of concern. Part 4 of my report provides further analysis on the financial performance of health authorities and NHS Trusts and the action taken by the NHS Executive.
- 2.3 Each year, appointed auditors summarise their audit findings for analysis by the Audit Commission. Findings from audits of the 1996-97 accounts indicated that the single most important issue arising was the financial standing of NHS organisations. Other issues noted included the following:
- Trusts and health authorities submitted their audited accounts on time and to an earlier timetable than in previous years, though some problems were noted with the quality of the preparation of final accounts at a small number of health organisations;
 - clarification from the NHS Executive was required on the way in which NHS organisations should deal with deficits carried forward into 1997-98;
 - full accruals accounting was introduced successfully at health authorities;
 - action was required to address difficulties with the implementation of the "Patients Not Paper" initiative, in particular with regard to health authority access to GP records and to the implementation of effective monitoring systems; and
 - further improvements were reported in the standard of internal audit in the NHS.
- 2.4 In response to the points raised by the appointed auditors, the NHS Executive have taken a number of measures, which included:
- emphasising the need, in the health authority and NHS Trusts manuals for accounts, for good quality timely accounts, with clear working papers linking the underlying records and the accounts. The NHS Executive reiterated these messages at training courses for NHS finance staff in February 1998;
 - regional offices continuing to develop recovery plans for health organisations with serious financial problems; and

- issuing guidance on the “Patients not Paper” implementation of post payment verification. Protocols have been agreed with local medical committees that cover checking procedures and access to GP records. This was complemented by training programmes for health authority staff.

Findings which led to Section 20(3) referrals and Section 15(3) reports

2.5 Section 20(3) of the National Health Service and Community Care Act 1990 requires an appointed auditor to refer matters to the Secretary of State if the auditor has reason to believe that an NHS organisation has made a decision which involves, or may involve, unlawful expenditure. As this arrangement is used to give early warning of potential problems, which may not then materialise, these reports are addressed to the Secretary of State and are not published. Since my report on the summarised accounts for 1995-96 (HC 127, 1997-98), appointed auditors have referred four such matters to the Secretary of State, which concerned:

- potential legality issues arising from a Trust’s use of its income generating powers;
- employment termination or early retirement settlements at two Trusts; and
- the financial position of a Trust.

2.6 The NHS Executive have considered the section 20(3) reports put forward by appointed auditors and have taken further action where they considered appropriate.

2.7 Section 15(3) of the Local Government Finance Act 1982 requires an appointed auditor to consider whether, in the public interest, he should make a report on any matter coming to his notice. Two such reports have been issued since my report on the summarised accounts for 1995-96 (HC127, 1997-98), which concerned:

- the failure of a former health authority official to declare a conflict of interest during the establishment of a GP co-operative. Following his retirement in 1996, the official took up employment with the co-operative. The appointed auditor noted that, once the individual’s involvement became known, the health authority took appropriate and timely action. However, the appointed auditor also recommended that the health authority should review its decision to make a termination payment to the individual in question. More generally, he recommended the establishment of national protocols for senior officers who are leaving the NHS to notify their employers if they are taking up appointments in related areas;
- an unsuccessful joint venture between an NHS Trust and a company for the provision of a waste incineration service. The auditor drew attention to defects in the Trust’s procedures, and to the total net loss to the Trust as a result of the joint venture of £3.3 million. The NHS Executive told me that the board members of the Trust directly involved with the venture have been replaced, and that the Trust has reached settlements with the company on all outstanding issues.

Findings on Funds Held On Trust

- 2.8** NHS Trusts, health authorities and special trustees prepare separate accounts for funds which they hold on trust. Most NHS Trusts and some health authorities hold such funds. Special trustees hold funds for many of the former university and teaching hospitals that were in existence prior to 1 April 1974. Most of the funds are held in charitable trusts.
- 2.9** The summarised account for 1996-97 (page 61) shows total funds at 31 March 1997 of some £1.5 billion. Of this, some £0.4 billion was held in restricted funds, which can only be applied for specified purposes. The remainder was held in unrestricted funds which may be applied for other charitable purposes within the NHS organisation.
- 2.10** 1996-97 was the first year that the accounting provisions of the Charities Act 1993 came into force for NHS funds held on trust. The format of the accounts now follows the Statement of Recommended Practice – Accounting By Charities, issued by the Charity Commission, with the approval of the Accounting Standards Board, in October 1995. This represented a significant change in the accounting requirements for these funds.
- 2.11** The Audit Commission advised auditors to regard 1996-97 as an “interim period” where some issues were not completely resolved and to work closely with audited bodies which were attempting to deal with a diverse range of issues and problems. Following the completion of the 1996-97 audits, appointed auditors noted a number of teething problems with the new accounting arrangements, for instance, converting the valuation of investments to a market value basis.
- 2.12** Before 1995-96, appointed auditors’ opinions on accounts of funds held on trust contained a “limitation in scope” qualification with respect to donated income. This was a “standard” qualification given because not all voluntary donations (for instance, street collections) can be fully controlled until they are entered in the accounting records and they cannot therefore be fully validated by independent audit verification. In 1995-96, the Charity Commission advised that this “limitation in scope” qualification need not be issued where there were no sources of voluntary donations or the auditor could establish that such income was immaterial to the accounts. Where donations were material, auditors’ opinions again included the “limitation in scope” qualification.
- 2.13** The Audit Commission issued further guidance for 1996-97 audits, reflecting a number of developments, including the revised basis of accounting under the Statement of Recommended Practice; Practice Note 11 (“The Audit of Charities”), issued by the Auditing Practices Board in October 1996, which provides advice on control procedures specific to charities; and further guidance from the Charity Commission. The Audit Commission no longer expected auditors to use a “limitation in scope” qualification without first making an assessment of the extent and operation of controls during each audit. Where auditors were unable to obtain satisfactory evidence of effective control over voluntary donations, they were to include a revised form of qualification in their opinions.

- 2.14 Appointed auditors gave qualified opinions on approximately half of the accounts of funds held on trust for 1996-97, including many of the larger accounts. These qualifications were given because, in the opinion of the appointed auditors, there were no satisfactory audit procedures that could be adopted to confirm that all voluntary donations were recorded in individual fund accounts. The Audit Commission stated that qualifications arose mainly because charities had not clearly identified the point in the process of receiving donations at which they are accounted for as income. Without this, it cannot be established that there is sufficient control over this type of income.
- 2.15 I have discussed further the reason for the qualified audit certificates with appointed auditors, who told me that their opinions were based on audit testing completed in the light of the Audit Commission guidance. In addition, the Commission have also confirmed with appointed auditors that, in deciding to qualify the accounts, they did so in full knowledge of the guidance issued.
- 2.16 It is important to stress that the appointed auditors, in issuing qualified audit opinions, did not identify any actual losses resulting from the lack of auditable controls in place over voluntary donations. Nevertheless, on the basis of the qualified opinions given on a significant number of underlying accounts, I have to qualify my opinion on the 1996-97 Summarised Account of the Funds Held on Trust in England. This is because I am unable to establish with the required degree of certainty, on the evidence available to me, that all voluntary donations are properly recorded in the summarised account since I do not have responsibility for the financial audit of the individual bodies concerned.
- 2.17 The NHS Executive believe that with few exceptions the controls over charitable income within NHS organisations are generally sound. The NHS Executive noted that few auditors had formally drawn to the attention of NHS organisations weaknesses in their control over charitable income and consider that this implies that most qualifications were of a technical nature. However, the NHS Executive intend to encourage NHS organisations to work with their appointed auditors to reduce the number of qualified opinions in future years.

Audit Commission value for money work

- 2.18 In addition to the work of their appointed auditors on the accounts of NHS organisations, the Audit Commission also undertake value for money work. My staff liaise closely with them so that, taken together, our studies avoid overlap and add value. Since April 1997, the Commission have completed the following national studies as part of their rolling programme:
- *Comparing Notes* – on information management in community Trusts (September 1997);
 - *The Coming of Age* – on improving care services for older people (October 1997);
 - *Higher Purchase* – on commissioning specialist services in the NHS (October 1997);
 - *Anaesthesia Under Examination* – on anaesthetic and pain management services (December 1997); and
 - *A Stitch in Time* – on the challenge of the Year 2000 date change for computer systems in the NHS (June 1998).

Part 3 Developments in accounting and internal control

Introduction

- 3.1** This part of my report outlines key developments in accounting and internal control within the NHS, in particular with relation to resource accounting and budgeting (paragraphs 3.2 to 3.5), internal controls in the NHS (paragraphs 3.6 to 3.9) and measures to combat prescription fraud (paragraphs 3.10 to 3.17).

Resource Accounting and Budgeting

- 3.2** In July 1995, the White Paper "Better Accounting for the Taxpayer's money" set out details of the Resource Accounting and Budgeting initiative. In broad terms, the purpose of the initiative was to introduce accruals accounting to government departments' accounts with the aim of replacing the existing departmental cash accounts (appropriation accounts) by the year 2000-2001. The new Resource Accounts will consolidate all of a department's activities, even where these are currently accounted for via a number of individual appropriation and other accounts.
- 3.3** Following discussions with all interested parties, the Treasury agreed that the Department of Health's Resource Account should encompass the activities of the Department and the NHS Executive, all health authorities and a number of special health authorities. Primary Care Groups, to be introduced from 1 April 1999 under the Government's recent White Paper "The New NHS" (Cm 3807), will also be included within the Resource Account. The activities of NHS Trusts and GP fundholders, however, fall outside the boundary for the Departmental Resource Account.
- 3.4** I have worked closely with the Department, the Treasury and the NHS Executive to address the general issues involved in resource accounting and the specific issues, which relate to the Department of Health and the NHS. The major issues of relevance to NHS bodies raised to date were:
- establishing an appropriate boundary for the Resource Accounts;
 - the need for intra-group transactions to be eliminated from the accounts, as the Resource Account will be a consolidation rather than a summarisation of component accounts;
 - the timing difficulties of consolidating 100 health authority accounts with other departmental activities within tight deadlines;
 - identifying appropriate objectives against which to analyse NHS expenditure;
 - setting appropriate capitalisation thresholds for each of the bodies whose accounts are to be consolidated; and
 - fine-tuning the existing NHS accounting policies to meet the requirements of resource accounting.

- 3.5 Progress has been made in resolving some of these fundamental issues, so that NHS organisations appear well placed to provide the financial information required to be consolidated in to the Department of Health Resource Account. I shall liaise closely with the Department, the NHS Executive and the Treasury about the possible impact of Resource Accounting requirements on the future of the NHS summarised accounts for health organisations, with the aim of minimising the audit burden on these bodies without compromising public accountability.

Internal Controls in the NHS

- 3.6 The Chief Executive of the NHS is responsible for the regularity and propriety of expenditure, including the keeping of proper accounts by the NHS; and value for money. In view of the size and complexity of the NHS, the Chief Executive has designated all Chief Executives of health authorities and NHS Trusts as Accountable Officers, answerable to Parliament through him for the efficient, effective and proper use of all the resources in their charge. A full description of Accounting Officer responsibilities was given in a memorandum submitted by the NHS Chief Executive to the Committee of Public Accounts and included in the Committee's 19th report, session 1996-97 (The Former Yorkshire Regional Health Authority: The Inquiry Commissioned by the NHS Chief Executive: HC432, 1996-97).
- 3.7 On regularity and propriety, the NHS Executive put in place arrangements that took account of recent developments aimed at strengthening corporate governance in the private sector. All health authorities and Trusts are governed by boards comprising executive and non-executive directors, working under a non-executive chairman, and operating within codes of openness, conduct and accountability. The code of accountability includes measures aimed at ensuring effective stewardship and financial control at local level, particularly:
- issuing model Standing Financial Instructions and other guidance on financial control in health authorities and NHS Trusts;
 - establishing audit and remuneration committees to strengthen the role of non-executive members of NHS bodies;
 - requiring each health authority and Trust to submit audited accounts and to publish annual reports and accounts; and
 - strengthening internal audit through a major initiative in the NHS.
- 3.8 In December 1992, the Cadbury Report on corporate governance recommended that the board of directors of listed companies should report on the companies' systems of internal financial control. The NHS Executive decided to introduce this recommendation into the NHS as a means of both drawing together previous measures and strengthening the corporate governance framework within the service. Therefore, in their annual accounts from 1997-98 onwards, NHS organisations are required to include a directors' statement on internal financial control. The directors will be required to sign a new statement that confirms:
- that the organisation has an appropriate system of internal financial control in line with NHS Executive guidance;

- that the minimum control standards laid down by the NHS Executive have been in existence within the organisation throughout the financial year; and
- that appropriate disclosures have been made where the organisation does not comply with the required standards.

3.9 Appointed auditors will be required to give an opinion on whether the directors have provided the required disclosures on internal financial control in line with NHS Executive guidance, and that the required statement is not inconsistent with their audit findings.

Measures to Combat Prescription Fraud in the NHS

- 3.10 The Prescription Pricing Authority processes some 480 million prescription items, worth almost £4.5 billion, in England and Wales each year. In April 1996, the NHS Executive set up a Fraud Investigation Unit, as part of the Authority, to detect and deter prescription fraud by doctors and pharmacists, and evasion of prescription charges by patients. The Unit has specific powers, as an agent of the Secretary of State for Health, to conduct investigations into fraud on behalf of other health authorities.
- 3.11 In June 1997, the Department of Health published an Efficiency Scrutiny Report on Prescription Fraud. This estimated that each year the Department lost between £70 million and £100 million through prescription charge avoidance, and some £15 million from theft and forgery.
- 3.12 The review team concluded that the information systems at health authorities were not sufficiently advanced to produce firm estimates of losses due to fraud perpetrated by doctors and pharmacists. However, some large-scale frauds have come to light. For example, in 1997-98 a health authority recorded a net loss of some £919,000 of public funds resulting from collusion between a doctor and a pharmacist in committing prescription-related fraud between July 1987 and May 1990, which was discovered in December 1990. The doctor issued false prescriptions and the pharmacist claimed for payments. Both the perpetrators were successfully prosecuted and the health authority introduced monthly monitoring of payments to pharmacists to prevent a similar fraud occurring in the future.
- 3.13 The Fraud Investigation Unit regularly checks samples of prescriptions where exemptions had been claimed to ensure that there was correct entitlement. Centralisation of this task at the Prescription Pricing Authority has made possible the wider use of information technology to improve the efficiency of the process, and the Authority plan to make further enhancements to the arrangements. The latest information from the Unit indicates that it carried out 104,000 checks on the 1996-97 sample of prescriptions and a further 124,000 for 1997-98 have been completed or are in train. As a result of these checks, the Unit have identified a total of £85,000 owing for prescriptions for 1996-97, and £55,000 (so far) for 1997-98. Actual recoveries to date, which by their nature lag some time after the month in which the prescription was first dispensed, amount to £79,000 for the two years taken together. However, the NHS Executive consider that the full impact of the checking process, taking into account the prevention and deterrence of other evasion, is likely to have been much larger than the cash recoveries themselves.

- 3.14** The Unit, in collaboration with health authorities, also follow up cases of suspected contractor fraud reported by authorities and have begun to use special analytical programmes on the Prescription Pricing Authority's database to detect contractors and costs at variance with the national position. The Unit reported that, in May 1998 it was investigating 375 cases of suspected fraud, worth an estimated £15 million including estimated prospective losses. Of these, 193 cases have been closed, including 12 in which a criminal conviction was obtained. Approximately £543,000 has been recovered through voluntary repayments, and other large repayments are expected.
- 3.15** In October 1997, the Department announced that a "Fraud Supremo" would be appointed to lead a small team of people to help crack down on fraudulent activity in the areas of prescription, optical and dental fraud. The "Fraud Supremo" will introduce skills and experience in anti-fraud work, bringing in the expertise of the Police and Customs and Excise so that health authorities, the Dental Practice Board and the Prescription Pricing Authority can fight fraud more effectively. The NHS Executive has appointed a person who will take up this post from 1 September 1998.
- 3.16** In January 1998, the Department announced a programme of action against fraud which will implement the vast majority of the 100 recommendations made in the Efficiency Scrutiny Report. This action will include:
- legislation to be drafted creating a new criminal offence of evading payment of prescription charges, with a fixed penalty scheme for non-payment;
 - incorporating anti-theft and anti-counterfeiting devices in the printing of the prescription form from 1 April 1998;
 - a reward scheme for pharmacies which detect stolen or counterfeited prescription forms;
 - new checks in pharmacies and dispensing doctors' surgeries on entitlement to exemptions from prescription charges;
 - greater use of information technology by the Prescription Pricing Authority's Fraud Investigation Unit to improve investigation and detection of fraud by NHS contractors; and
 - examination of the costs and benefits of an electronic data interchange system for transferring prescription information, which could bring long-term benefits for the prevention of both patient and contractor fraud.
- 3.17** The NHS Executive and the Fraud Investigation Unit have already implemented a number of the recommendations, and work is progressing on the remainder in consultation with professional bodies.

continued . . .

Part 4 Financial performance of the NHS

Introduction

- 4.1 This part of my report looks at the financial performance of health authorities (paragraphs 4.2 to 4.7) and at the action taken by the NHS Executive to monitor the situation and address problems (paragraphs 4.8 to 4.10). I then consider the financial performance of Trusts (paragraphs 4.11 to 4.19) and the monitoring of Trusts by the NHS Executive (paragraphs 4.20 to 4.24).

Health authorities

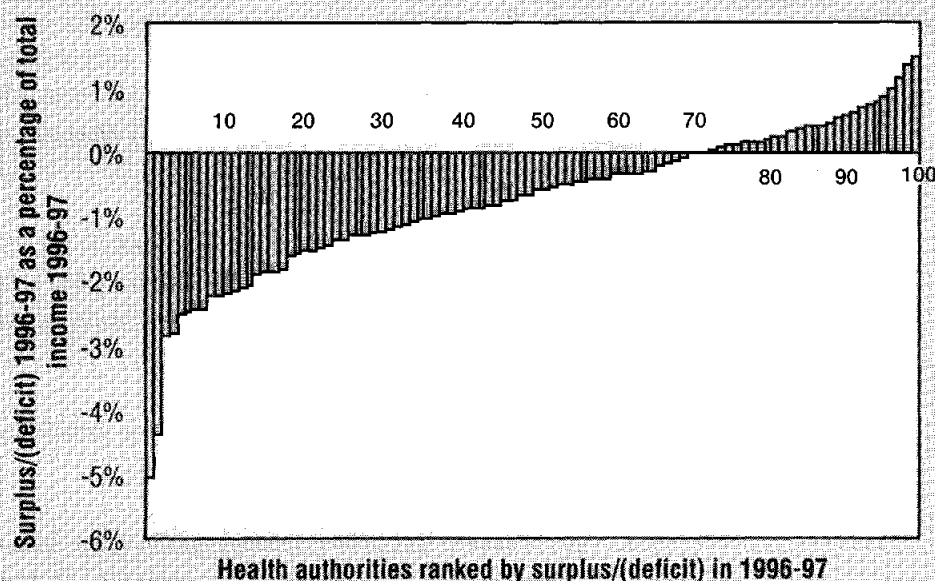
Financial performance

- 4.2 1996-97 was the first year of the operation of the 100 health authorities in England. The health authorities combined the operation of the old District Health Authorities and Family Health Services Authorities. Paragraph 10 of the Foreword to the summarised accounts notes that, in 1996-97, all health authorities achieved their statutory financial duty of ensuring that net expenditure did not exceed their cash limit.
- 4.3 In total, health authorities reported a deficit for 1996-97, on an accruals basis, of £238 million and an accumulated deficit at the year-end of £791 million. The balance sheet as at 31 March 1997 (see summarised account of health authorities, page 15) included:
- long term creditors and liabilities for pension and clinical negligence costs of some £330 million; and
 - net current liabilities of £461 million, i.e. health authorities' short term liabilities of creditors and overdrawn bank balances exceeded their current assets in the form of stocks, debtors and cash by this amount.
- 4.4 In interpreting the key financial information in the summarised accounts, it is important, however, to note the impact on the financial statements both of the way in which health authorities are funded and the level of liabilities which the new health authorities inherited:
- **funding** – health authorities are funded each year on a cash basis from the Class XI, Vote 1 Appropriation Account. Cash allocations are designed to meet each health authority's expected cash requirement in the year, hence the statutory duty of health authorities not to exceed their cash limit. This cash-based system of funding, however, means that health authorities do not receive funding in the year to cover longer-term liabilities, such as provisions for future clinical negligence costs. These liabilities must nevertheless be recorded on a health authority's balance sheet. As a result, health authorities are likely to carry significant liabilities in their balance sheets not matched by funding assets. Cash funding to meet the longer term liabilities will still be required when the liabilities are due to be settled; and
 - **inherited liabilities** – the opening balance sheet of the health authorities' summarised account records an opening deficit on the income and expenditure reserve of £553 million, representing net opening current liabilities of £255 million and provisions for future liabilities and charges of £298 million.

These liabilities included prior year brokerage (short term lending and borrowing from other NHS organisations), cumulative GP fundholder underspending, and outstanding reimbursements of drugs expenditure.

4.5 Figure 2 gives an indication of the relative financial performance of health authorities, by analysing surpluses and deficits as a percentage of each health authority's income in 1996-97. 72 out of the 100 health authorities recorded a deficit in the year, on an accruals basis. Table 1 lists the five health authorities with a deficit equivalent to more than 2.5% of total income.

Figure 2: The financial position of health authorities in 1996-97



Source: Health authority accounts for 1996-97, England

Figure 2 shows that almost three-quarters of health authorities made a deficit in 1996-97.

Table 1: Health authorities with deficits in 1996-97 greater than 2.5 per cent of income

Health authority	Deficit in 1996-97 as a percentage of total income	Deficit in 1996-97 (£ million)
West Surrey	5.1%	19.2
Redbridge and Waltham Forest	4.4%	13.1
Hillingdon	2.9%	4.3
Ealing, Hammersmith and Hounslow	2.8%	13.2
Bradford	2.5%	7.5

Source: Health authority accounts 1996-97

Table 1 details the five health authorities in England with deficits in 1996-97 exceeding 2.5% of total income in the year.

4.6 Analysis by the NHS Executive showed that health authorities funded their deficits by:

- the use of working balances (i.e. reducing levels of debtors while allowing creditor levels to increase); and
- switching funding from capital to revenue.

- 4.7 89 of the 100 health authorities had an accumulated deficit as at 31 March 1997, and 34 carried forward a deficit of more than £10 million. 12 health authorities had an accumulated deficit of more than 5% of total 1996-97 income (Table 2).

Table 2: Health authorities with cumulative deficits greater than 5 per cent of income as at 31 March 1997.

Health authority	Accumulated deficit as a percentage of total income in 1996-97	Accumulated deficit as at 31 March 1997 (£ million)
West Surrey	10.7%	40.5
Wakefield	8.5%	17.8
Enfield and Haringey	7.9%	25.5
Redbridge and Waltham Forest	7.3%	21.8
North and East Devon	7.3%	21.4
East Kent	6.6%	24.9
North Essex	6.5%	31.5
Barking and Havering	5.9%	14.2
Ealing, Hammersmith and Hounslow	5.7%	26.8
Newcastle and North Tyneside	5.2%	16.7
West Hertfordshire	5.1%	15.9
Kingston and Richmond	5.1%	10.5

Source: Health authority accounts 1996-97

Table 2 details the 12 health authorities in England with accumulated deficits as at 31 March 1997 exceeding 5% of 1996-97 total income.

Monitoring and action by the NHS Executive

- 4.8 The NHS Executive, through its eight regional offices, monitors the financial position of each health authority. The regional offices take account of “non-recurrent” factors from a health authority’s reported financial position in order to assess the underlying picture, for example special assistance funding from the NHS Executive centrally or from the NHS Executive regional office. As a result, the NHS Executive do not consider that in year and cumulative deficits and identified future liabilities disclosed in a health authority’s accounts are in themselves an indication of financial problems in all cases. Paragraph 11 of the Foreword notes that, at the end of 1996-97, the NHS Executive considered a total of 42 health authorities to have serious recurrent deficits (defined as being more than the lower of 1 per cent of income or £1 million).
- 4.9 The NHS Executive’s regional offices identified a number of common factors contributing to the financial difficulties experienced by health authorities, as set out in paragraph 11 to the Foreword. Paragraphs 13 and 14 of the Foreword describe the action taken by the NHS Executive in cases where they believed that the financial performance of a health authority indicated an underlying recurrent difficulty. Such health authorities were required to prepare a recovery plan; the appropriate regional office agreed these plans and monitored their implementation.
- 4.10 The NHS Executive now set income and expenditure targets for health authorities, which aim to minimise the extent to which they spend more than their income. In 1997-98, the key income and expenditure target is that all health authorities should break even, on an accruals basis, except where there are deep-seated problems that cannot be resolved in a single year, and that all health authorities should be in

recurrent financial balance by 1 April 1999. By the end of the third quarter of 1997-98, the NHS Executive noted that the forecast year-end deficit for health authorities totalled some £63 million, compared to the reported deficit of £238 million in 1996-97. At the end of the third quarter of 1997-98, the NHS Executive assessed 28 health authorities as having serious financial problems, compared to 42 health authorities at the end of 1996-97.

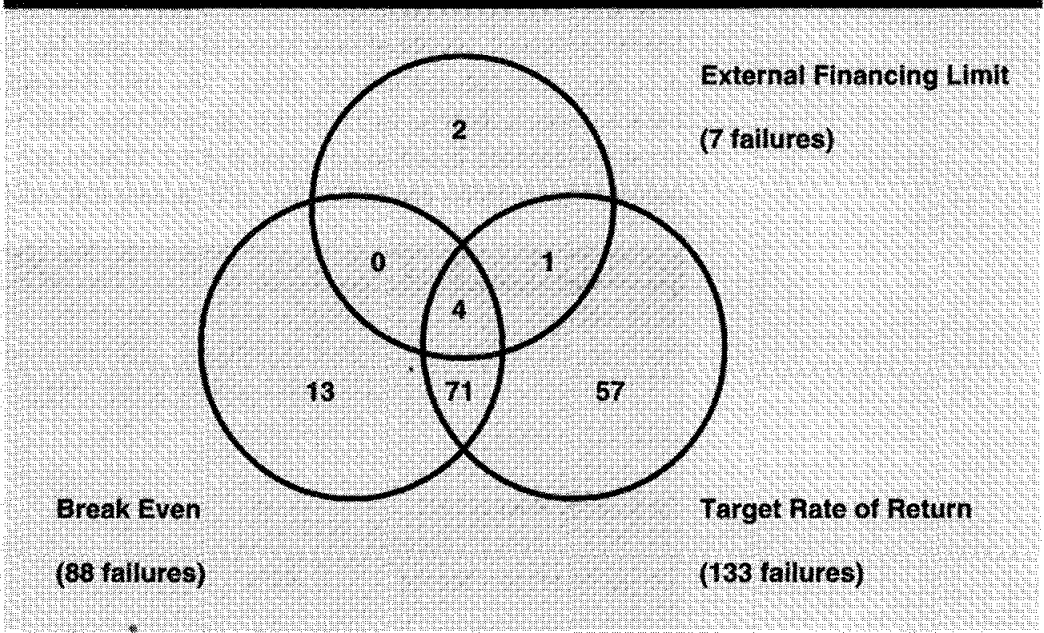
NHS Trusts

Financial performance

- 4.11 The Foreword to the summarised accounts also gives details of the financial duties of NHS Trusts (paragraph 17) and the numbers of Trusts which met their financial duties in 1996-97 (paragraph 21).
- 4.12 NHS Trusts have three financial duties (break-even, rate of return and external financing limit), although from 1997-98 the duty to break even will become the primary duty. The NHS Executive assessed Trusts' performance against these duties in two main ways: before and after adjusting for technical factors. These technical factors, as referred to in paragraph 23 of the Foreword, are:
- increased charges to the income and expenditure account for clinical negligence costs due to changes to the accounting policy for clinical negligence since Trusts had set their prices for 1996-97;
 - that part of any in-year provision for early retirements which the Trusts had not intended to recover in prices immediately; and
 - Private Finance Initiative (PFI) testing costs that were initially treated as capital expenditure but which Trusts were now required to write off to the income and expenditure account.
- 4.13 The NHS Executive's analysis of Trusts' performance showed that:
- 148 out of 429 Trusts failed one or more financial duties (Figure 3) after adjusting for technical factors, and for failures which the NHS Executive consider to be immaterial;
 - on the **duty to break-even**, 88 Trusts made a deficit in 1996-97 after adjustment;
 - on the **duty to earn a 6 per cent rate of return**, 133 Trusts missed the target after adjustment for technical factors and immaterial failures (which the NHS Executive defined as failures of no more than 0.5 per cent); and
 - on the **duty to stay within external financing limits**, 7 Trusts failed by a material amount, which the NHS Executive defined as a breach of the limit of more than £10,000.

continued . . .

Figure 3: NHS Trusts Failing Financial Duties After Adjustments



Source: Analysis of audited NHS Trusts' accounts by NHS Executive
 Figure 3 shows that of the 429 Trusts, 148 failed one or more financial duty, after adjusting for "technical" factors, i.e. factors outside the Trusts' control at the time they set their prices, and excluding immaterial failures.

- 4.14 Paragraph 26 of the Foreword indicates the reasons for NHS Trusts failing their financial duties.
- 4.15 The summarised account of NHS Trusts for 1996-97 (see page 37) shows that, in total, Trusts' surpluses on ordinary activities fell from £169.2 million in 1995-96 to £156.9 million in 1996-97. After deducting dividends payable on Public Dividend Capital, Trusts reported a retained deficit of some £50.5 million for 1996-97 compared with a retained surplus of £46.1 million for 1995-96. The £96.6 million reduction in the surplus is accounted for by the difference in Trust Debt Remuneration (TDR) between the two years. Trusts were required to remit a higher proportion of their planned operating surplus as TDR in 1996-97 compared with 1995-96 as part of the move to remit the full 6% target return from 1997-98 (see paragraphs 29 and 30 of the Foreword). At the end of 1996-97, NHS Trusts reported an accumulated surplus of £306.8 million.

continued . . .

- 4.16 In total 137 Trusts incurred a deficit for 1996-97 and Table 3 shows the ten Trusts with the largest deficit, expressed as a percentage of income. Paragraph 24 of the Foreword gives details of how some deficits may be unavoidable but may be matched by surpluses in later years. The NHS Executive's analysis of the reasons for the largest deficits in Table 3 indicated that they were partly caused by the technical factors listed in paragraph 4.12. Where not explained by technical factors, the deficits are indicative of financial difficulties at the Trust in question.

Table 3: NHS Trusts with deficits in 1996-97 greater than 4.5 per cent of income

NHS Trust	Deficit in 1996-97 as a percentage of total income	Deficit in 1996-97 (£ million)	Element of deficit due to technical factors
Anglian Harbours	10.4%	3.3	£3.3 million provisions for Trust dissolution
East Surrey Priority Care	7.3%	2.3	£2.3 million early retirement provisions and write-offs on closure
Central Middlesex Hospital	6.0%	2.9	None
Dorset Community	5.9%	1.9	£1.0 million early retirement provisions
Alexandra Healthcare	5.3%	1.8	None
Mental Health Services of Salford	5.2%	2.1	£2.4 million early retirement provisions
Wellhouse	5.0%	4.2	£4.2 million restructuring and clinical negligence provisions
Northwick Park	4.9%	4.1	£0.4 million clinical negligence provisions
United Leeds Teaching	4.9%	10.0	£4.0 million in excess interest charges, early retirement and clinical negligence provisions
North East Lincolnshire	4.8%	2.8	£1.3 million early retirement provisions

Source: NHS Trust accounts 1996-97, NHSE monitoring data

Table 3 details the Trusts in England with deficits in 1996-97 exceeding 4.5% of total income in the year, with detail on relevant technical factors affecting the deficit.

- 4.17 At 31 March 1997, 112 NHS Trusts had cumulative deficits, which totalled some £222 million. Table 4 lists the 23 trusts with cumulative deficits greater than 5 per cent of total income. The NHS Executive has reviewed the reasons for the deficits set out in Table 4. In a number of cases, the deficits have been caused by factors such as book value losses on disposal of assets, early retirement provisions, revaluations or provisions for hospital closures.

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Table 4: NHS Trusts with cumulative deficits greater than 5 per cent of total income as at 31 March 1997

NHS Trust	Accumulated deficit as a percentage of total income in 1996-97	Accumulated deficit as at 31 March 1997 (£ million)
Liverpool Women's Hospital	13.2%	3.8
Royal United Hospital Bath	10.3%	7.5
South Warwickshire General Hospitals	9.5%	4.3
Greenwich Healthcare	8.6%	8.2
United Leeds Teaching Hospitals	8.3%	17.0
Anglian Harbours	8.1%	2.5
Scarborough and North East Yorkshire	8.0%	5.1
Humberside Ambulance	8.0%	1.1
Dorset Community	8.0%	2.6
Sheffield Children's Hospital	7.7%	2.2
Swindon and Marlborough	7.2%	5.0
South Manchester University Hospital	6.8%	10.6
Horizon	6.6%	2.2
Pinderfields Hospitals	6.6%	4.5
Wellhouse	6.5%	5.4
Airedale	6.4%	4.3
Trecare	6.4%	0.8
Forest Healthcare	5.7%	7.0
The Royal West Sussex	5.7%	2.6
East Anglian Ambulance	5.7%	1.5
Royal National Orthopaedic	5.5%	2.0
West Dorset General Hospitals	5.3%	2.6
Poole Hospitals	5.1%	3.4

Source: NHS Trust accounts 1996-97

Table 4 details the 23 Trusts in England with cumulative deficits as at 31 March 1997 exceeding 5% of 1996-97 total income.

- 4.18 Paragraphs 29 and 30 of the Foreword refer to the changes in the Trust financial regime. In particular, the NHS Executive has clarified the interpretation of the **duty to break even** "taking one financial year with another". Trusts would normally be expected to achieve a balanced position on their income and expenditure account each year. However, the NHS Executive will, in future, assume that the duty to break even has been met if expenditure is covered by income over a rolling three-year period. Exceptionally, with the agreement of the relevant regional office, the period may be extended to five years. As part of this change, the recognised "technical" adjustments were more tightly defined for 1996-97, and from 1997-98 there will be no such adjustments. As a result, if a Trust has not set prices sufficient to cover costs in one year, it will now be expected to do so over the subsequent years.

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4.19 The clarification of the break even duty from 1997-98 has resulted in some accumulated deficits prior to 1 April 1997 not requiring recovery. The NHS Executive has confirmed that where accumulated deficits have been the result of technical factors and have no cash consequences, they may not expect Trusts to recover accumulated deficits as this could have an adverse effect on patient care. However, where the accumulated deficit has been caused by excess expenditure or provisions requiring future cash payments, then the Trust would normally be expected to recover the deficit in future years.

Monitoring of NHS Trusts by the NHS Executive

4.20 Paragraph 18 of the Foreword summarises the way the NHS Executive agree business plans with NHS Trusts and monitor their performance and paragraph 27 outlines the steps the Executive take when they consider that Trusts have underlying financial difficulties.

4.21 As I noted in my report on the NHS summarised accounts for 1995-96, 95 Trusts reported financial difficulties at the end of 1995-96, of which 26 were assessed by the NHS Executive as serious (i.e. where adjusted forecast deficits exceed the lower of £1 million or 1% of turnover). By the final quarter of 1996-97, the total number of Trusts facing financial difficulties stood at 159, and the number assessed by the Executive as having serious financial difficulties had increased to 54.

4.22 During 1997-98, the NHS Executive reviewed the monitoring criteria used to assess their conclusions on NHS Trusts' underlying financial position. As a result of this review, detailed adjustments were made to monitoring arrangements to ensure greater consistency in the information supplied by regional offices to NHS Executive headquarters. At the end of the third quarter of 1997-98, under the new monitoring arrangements, the NHS Executive identified 74 NHS Trusts as experiencing serious financial difficulties. Under the previous monitoring arrangements, around 50 Trusts would have been assessed as having serious financial difficulties.

4.23 The NHS Executive also noted that Trusts were forecasting an overall 1997-98 year-end deficit of some £108 million, compared to £51 million in 1996-97. However, the two years are not directly comparable because £170 million surplus was built into the Trust financial regime in 1996-97, which has been removed in 1997-98 to improve cost control and financial discipline. Taking account of this £170 million surplus, the NHS Executive consider that the forecast deficit at the end of the third quarter of 1997-98 shows a significant improvement over 1996-97.

4.24 In addition to refining the monitoring arrangements for Trusts, the NHS Executive has developed monitoring of the financial position of geographical areas experiencing financial problems. This analysis combines health authorities with the main NHS Trust providers in the area to give an overall picture of the state of the local "health economy". At the end of the third quarter of 1997-98, this monitoring identified six geographical areas (out of 100) with underlying financial deficits of over £10 million. The areas concerned were Leeds, Ealing/Hammersmith/Hounslow, East London and City, Camden and Islington, Lambeth/Southwark/Lewisham and Merton/Sutton/Wandsworth.

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Part 5 Clinical negligence

Introduction

- 5.1 This part of my report provides an update on the costs to the NHS of clinical negligence (paragraphs 5.2 to 5.5), outlines developments in the funding and accounting arrangements (paragraphs 5.6 to 5.24), and records the ways in which the NHS Litigation Authority are seeking to reduce the overall cost of clinical negligence litigation in future years (paragraphs 5.25 to 5.29).

Background

- 5.2 Clinical negligence is the term given to a breach of a duty of care by health care practitioners in the performance of their duties in the NHS. In my report on the NHS summarised accounts for 1995-96 (HC 127, 1997-98), I described new arrangements adopted by the NHS Executive to account for and finance the cost of clinical negligence claims.
- 5.3 In total, £235 million was charged to expenditure in the summarised accounts for 1996-97 and a further £65.4 million was paid from central Departmental funds to health authorities and NHS Trusts, as explained in paragraphs 5.7 to 5.9 below.
- 5.4 The total of provisions for the costs of clinical negligence in the summarised accounts as at 31 March 1997 was £430 million (Table 5). This sum represents health organisations' best estimate of their share of future payments relating to certain or probable clinical negligence claims where costs can be reasonably estimated. In total, an additional £623 million is disclosed in the summarised accounts as contingent liabilities, where the outcome of cases is less certain, and provision for future costs is not required (Table 5). Taken together, the provisions and contingent liabilities include all claims against the NHS, although not all of them will be successful.

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Table 5: Account figures for cost of clinical negligence claims, 1996-97		
Account entries for clinical negligence	£ million	£ million
Charge to income and expenditure account		
Health authorities (summarised account, note 9)	88	
NHS Trusts (summarised account, note 22)	73	
NHS Litigation Authority (summarised account, note 2)	74	
TOTAL		235
Provision at 31 March 1997		
(amounts charged to income and expenditure accounts, either in 1996-97 or earlier years)		
Health authorities (summarised account, note 9)	232 (a)	
NHS Trusts (summarised account, note 13)	129	
NHS Litigation Authority (summarised account, note 8)	69	
TOTAL		430
Contingent Liability at 31 March 1997		
(amounts not charged to income and expenditure accounts)		
Health authorities (summarised account, note 18)	271 (b)	
NHS Trusts (summarised account, note 21)	191 (c)	
NHS Litigation Authority (summarised account, note 12)	92	
National Blood Authority (summarised account, note 13)	3	
TOTAL		557
Adjustment to NHS Litigation Authority contingent liability	66 (d)	
ADJUSTED TOTAL		623
Notes		
(a) includes all provisions other than those in respect of pensions: mostly clinical negligence but an element of the figure relates to employer negligence.		
(b) includes clinical and employer negligence.		
(c) includes all contingencies (mostly clinical negligence).		
(d) see paragraph 5.19: £92 million adjusted to £158 million to reflect the Authority's share of total claims rather than the most likely payment.		
<i>Source: Summarised Accounts for NHS England for 1996-97</i>		
Table 5 shows the total cost of clinical negligence, and provisions and contingent liabilities, as shown in the summarised accounts for 1996-97.		

- 5.5 The summarised accounts largely exclude, however, anticipated reimbursements from the Existing Liabilities Scheme for which no data was provided in the accounts of health organisations. Here, the cost to the Department of Health is likely to be of the order of a further £900 million (paragraph 5.12). And, there may be up to a further £1 billion in outstanding liabilities relating to incidents incurred but not yet reported (paragraph 5.23). Those claims within the total potential liability of some £2.3 billion (excluding contingent liabilities), which the NHS does not successfully defend, will become payable over a number of future years.

Funding clinical negligence claims

- 5.6 Claims are made against the relevant Trust or health authority, which was the employer of the health care practitioner at the time the incident occurred. Claims arising from incidents prior to the formation of NHS Trusts remain the responsibility of the health authorities, which had directly managed the hospitals at the time the incidents took place. Where health authorities had merged or

reconfigured, the liability passed to the successor health authorities. To assist in meeting the cash impacts of large clinical negligence claims, there are three separate funding schemes in place:

- a) the Existing Liabilities Scheme (paragraphs 5.7 to 5.13);
- b) the Clinical Negligence Scheme For Trusts (paragraphs 5.14 to 5.19);
- c) the Ex-Regional Health Authorities Scheme (paragraphs 5.20 to 5.22).

**Existing
Liabilities
Scheme**

- 5.7 The NHS Executive introduced the Existing Liabilities Scheme with effect from 1 April 1996, to provide assistance with the cost of claims for clinical negligence incidents, which arose before 1 April 1995. Under the Existing Liabilities Scheme, health authorities and Trusts pay the first £10,000 of any such justified claim, plus 20 per cent of the cost of the claim between £10,000 and £500,000. The remainder is payable from central funds provided by the Department of Health.
- 5.8 The NHS Litigation Authority are responsible for administering the Existing Liabilities Scheme, but they act as an agent of the Department of Health who provide the funding. The income and expenditure account of the NHS Litigation Authority therefore only includes the administrative costs of the Scheme, although note 1.9 of the summarised account (page 171) draws attention to the total amounts paid under the Scheme. The NHS Litigation Authority only make payments under the Scheme after a claim is finally settled; payments in 1996-97 amounted to almost £1.6 million.
- 5.9 However, in many cases, health authorities and NHS Trusts make payments into court in respect of claims likely to fall within the scope of the Existing Liabilities Scheme but which have yet to be finally settled. Where such payments were leading to cash flow difficulties, the NHS Executive invited health organisations, in December 1996, to apply for interim payments. As a result, the NHS Executive made interim payments totalling £63.8 million and subsequently sought details of the exact cases in respect of which health authorities had claimed reimbursement, in order to notify the NHS Litigation Authority.

Treatment of cases eligible for assistance from the Existing Liabilities Scheme in the accounts of health authorities and NHS Trusts

- 5.10 In my report on the NHS summarised accounts for 1995-96 I noted that less than half of health authorities had made a provision for clinical negligence. To enable the summarised accounts to be prepared on a consistent basis, the NHS Executive excluded all provisions from the income and expenditure account and balance sheet, and correspondingly increased the amount included in contingent liabilities.
- 5.11 For 1996-97, the NHS Executive clarified the accounting treatment of clinical negligence by health authorities. Virtually all health authorities made a provision in their accounts for the estimated cost of settling those clinical negligence claims which, on the balance of probability, they did not expect to defend successfully. Health authorities separately disclosed, under contingent liabilities, their estimate of the cost of those cases, which they did expect to defend successfully. In making

their provision, and disclosing their contingent liability, health authorities and Trusts generally deducted anticipated assistance from the Existing Liabilities Scheme. The accounting treatment in the summarised account of health authorities is now broadly in line with that adopted by NHS Trusts.

5.12 No figures are available in the summarised accounts for the amount which health authorities and NHS Trusts deducted from claims against them to reflect anticipated assistance from the Existing Liabilities Scheme, but I estimate this could be in the order of some £900 million. However, from 1997-98, the NHS Executive plan a further enhancement to the accounts of health authorities which will disclose the amount of anticipated assistance. In addition, provisions in respect of clinical negligence will now be shown separately from other provisions.

5.13 Although the summarised account of NHS Trusts (note 22, page 53) shows the total amount of assistance anticipated from the NHS Litigation Authority, in respect of charges to expenditure for 1996-97, it does not distinguish between the cost of cases covered by the Existing Liabilities Scheme and those covered by the Clinical Negligence Scheme for Trusts. However, the NHS Executive plan further improvements to disclosure within the accounts of NHS Trusts from 1997-98 and intend to show the schemes separately.

Clinical Negligence Scheme for Trusts

5.14 The NHS Executive introduced the Clinical Negligence Scheme for Trusts from 1 April 1995 to provide support to those NHS Trusts, which elect to join the scheme, for clinical negligence claims in respect of incidents occurring since that date. Earlier incidents at Trusts are covered by the Existing Liabilities Scheme. As virtually all hospitals are now managed by NHS Trusts, and most Trusts are members of the Scheme, most future clinical negligence incidents will fall within the scope of the Clinical Negligence Scheme for Trusts.

5.15 Of the 429 Trusts in existence in 1996-97, 384 were members of the scheme. When a negligence claim is made against a member Trust, the Trust is required to pay the full amount up to an excess limit, and 20 per cent of the claim between the excess and a higher threshold. Trusts can choose from a limited range of excesses and higher thresholds and their choice will affect the required contribution to the scheme. Figure 4 illustrates the amount a Trust with a typical excess level would expect to recover from the scheme, in respect of a claim settled for £1 million.

Figure 4: Illustration of calculation of expected recovery from the Clinical Negligence Scheme for Trusts

Portion of claim	Recovery from scheme	Trust share
First £100,000	NIL	£100,000
Between £100,000 and £500,000	£320,000	£80,000
Above £500,000 (up to claim total, in this case £1,000,000)	£500,000	NIL
TOTAL	£820,000	£180,000

Source: Clinical Negligence Scheme for Trusts: Induction Seminar (membership prospectus issued by NHS Executive, Touche Ross, Medical Protection Society and Willis Corroon)

Figure 4 shows that a Trust which has chosen an excess of £100,000 and a higher threshold of £500,000 could expect to recover £820,000 from the scheme, out of a claim costing £1 million. Note: Figure 4 does not take account of the Trust's annual contribution to the scheme.

- 5.16 The NHS Litigation Authority administer the Scheme. Although they have discretion over whether any reimbursements are made to Trusts, the Authority do intend to pay all claims which fall within the rules. The scheme is self-financing with the Authority setting contribution levels each year to allow a cushion against running out of funds.
- 5.17 Trusts paid a total of almost £8 million into the Scheme for 1996-97 (see page 172). Added to the contributions for 1995-96, this has led to a cash balance held by the Litigation Authority at 31 March 1997 in excess of £11 million. As at that date, the Authority had made no reimbursements to Trusts under the Scheme and the cash balance was likely to increase further as 1997-98 contributions were received.

Treatment of cases eligible for assistance from the Clinical Negligence Scheme for Trusts in the accounts of the NHS Litigation Authority and NHS Trusts

- 5.18 Trusts are required either to include the full amount of their share of each claim in the provisions in their accounts, or, if they believe that they will probably successfully defend the claim, to disclose it under contingent liabilities. The NHS Litigation Authority, however, disclose their share of each claim as a contingent liability, irrespective of the likelihood of the claim succeeding, and make no provision; this is because the Litigation Authority has discretion over making reimbursements to Trusts, and may decline to make a reimbursement if they are not satisfied with the way in which the Trust has handled the claim.
- 5.19 Also, unlike Trusts, the NHS Litigation Authority do not disclose the full amount of their share of each claim, but instead apply a percentage to each claim based on the estimated probability of the claim succeeding. The £92 million contingent liability disclosed in the summarised account of the NHS Litigation Authority (note 12, page 175) is the aggregate of the Authority's estimates of the amount they were most likely to pay in respect of each claim notified as at 31 March 1997. From the data held by the scheme managers, the equivalent figure to that which Trusts had deducted from both their provisions and contingent liabilities would have been some £158 million.

Ex-Regional Health Authorities Scheme

- 5.20 Most clinical negligence claims, which relate to incidents at hospitals when they were managed by health authorities remain the responsibility of that health authority even after the hospital obtained Trust status. When health authorities merged or reconfigured, the liability generally passed to successor health authorities. However, liabilities in respect of some hospitals and some other services formerly managed at a regional level had been assumed by the relevant regional health authorities. Upon the abolition of the regional health authorities, with effect from 1 April 1996, these clinical negligence liabilities became the direct responsibility of the NHS Litigation Authority.
- 5.21 Under the ex-regional health authorities scheme, the NHS Litigation Authority made payments of £4.4 million in 1996-97; a further £870,000 was paid in April and May and included in creditors at 31 March 1997. The Authority undertook an exercise to identify remaining claims in respect of the relevant hospitals and estimated that, at 31 March 1997, its outstanding liability was some £69.1 million (note 8, page 174). The Authority made a provision for all of these claims on the basis that they were all being actively pursued, even though some may be successfully defended.

- 5.22 The NHS Litigation Authority's deficit in 1996-97 of £62.8 million largely comprises the charge of this liability to the income and expenditure account, offset by the surplus on the Clinical Negligence Scheme for Trusts (summarised account, note 2, page 172). The Authority receive funding from the Department of Health to meet the cash requirements for the year under the ex-regional health authorities scheme, but no funding was received to meet the provision for future liabilities. However, note 1.9 to the summarised account (page 172) states that the Secretary of State will cover any outstanding liabilities in the event of the Authority ceasing to exist.

Incidents Incurred But Not Reported

- 5.23 In my report on the summarised accounts for 1995-96 (HC 127, 1997-98), I noted that there can be a considerable time lag between an incident occurring and a negligence claim being lodged. Neither health authorities or NHS Trusts generally made any provisions for the cost of clinical incidents which had not been reported by the balance sheet date but which may lead to claims in future years. The NHS Executive considered that it was not possible to estimate future claims arising from current activity with sufficient certainty to make a provision or merit disclosure in the individual or summarised accounts of health organisations. However, I estimate that outstanding liabilities relating to incidents incurred but not reported which are not included in the summarised accounts could amount to a further £1 billion.
- 5.24 In June 1997, the Accounting Standards Board issued Financial Reporting Exposure Draft 14, covering Provisions and Contingencies. The NHS Executive are currently considering this, and other proposals in the Exposure Draft, and their impact on the way they account for clinical negligence.

The role of the NHS Litigation Authority in reducing the cost of clinical negligence

- 5.25 As outstanding liabilities against the NHS may total some £2.3 billion, it is important that health authorities and NHS Trusts administer all claims efficiently and that NHS Trusts adopt good risk management practices to minimise the extent of future claims for which funding may be required. In addition to their principal task of administering schemes set up to help NHS organisations pool the cost of clinical negligence, the NHS Litigation Authority aim, through the operation of the schemes, to minimise the overall costs of clinical negligence, and thus maximise the resources available for patient care, in two main ways.
- 5.26 First, the NHS Litigation Authority aim to reduce overall costs by more effective claims handling, for instance by defending unjustified actions robustly and settling justified actions efficiently. Two examples where the Authority considered that its intervention had reduced costs are given at Figure 5. In addition, from 1 April 1998, the Authority have assumed responsibility for the direct management of new cases funded under the Clinical Negligence Scheme for Trusts, and have established a panel of legal practices with whom they will work. The Authority expect that this initiative will lead to quicker settlements and lower costs per claim.

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Figure 5: Examples of costs of settlements being reduced by the actions of the NHS Litigation Authority

- A health authority's solicitors had not provided advice to their client on the level of settlement they thought was acceptable. The Litigation Authority, with the help of Counsel, analysed the claim and negotiated the figure down to £1.5 million. The health authority's solicitors recommended this as a settlement figure. The Litigation Authority believed the appropriate settlement figure to be £1.4 million and this amount was accepted by the plaintiff. Without the intervention of the Litigation Authority this final step would not have happened and thus the further saving of £100,000 would not have been realised.
- In another case, a sum of £1.1 million was paid into court by a health authority. A week before the trial the plaintiff served a report on life expectancy, and on the basis of this the plaintiff rejected the figure in court and requested £1.3 million. The defendant's Counsel recommended that the case be settled at that sum. The Litigation Authority disagreed and recommended that the defendant's solicitors advise the plaintiff that they would seek a further expert report. As a result of this the plaintiff indicated that they would settle at £1.2 million. At the Litigation Authority's insistence this was rejected by the health authority and the case finally settled at £1.1 million. The Litigation Authority claim a saving of £200,000 from their intervention.

Source: Case studies provided by the NHS Litigation Authority.

- 5.27 Second, the NHS Litigation Authority seek to create incentives to reduce the number of negligent incidents occurring in future years. In August 1997, the Authority issued a Manual of Guidance on risk management standards and procedures, targeted at members of the Clinical Negligence Scheme for Trusts. The Authority set ten general standards, with an additional standard dealing specifically with maternity care and applicable only to those Trusts providing an obstetric service (Figure 6).

Figure 6: Risk Management Standards at NHS Trusts

General standards

1. The Board has a written risk management strategy that makes their commitment to managing clinical risk explicit.
2. An Executive Director of the Board is charged with responsibility for clinical risk management throughout the Trust.
3. The responsibility for management and co-ordination of clinical risk is clear.
4. A clinical incident reporting system is operated in all medical specialties and clinical support departments.
5. There is a policy for rapid follow-up of clinical incidents.
6. An agreed system of managing complaints is in place.
7. Appropriate information is provided to patients on the risks and benefits of the proposed treatment or investigation, and the alternatives available, before a signature on a consent form is sought.
8. A comprehensive system for the completion, use, storage and retrieval of medical records is in place. Record-keeping standards are monitored through the clinical audit process.
9. There is an induction/ orientation programme for all new clinical staff.
10. A clinical risk management system is in place.

For maternity care

11. There is a clear documented system for management and communication throughout the key stages of maternity care.

Source: NHS Litigation Authority: CNST Risk Management Standards and Procedures: Manual of Guidance August 1997

- 5.28 There are three levels of achievement included within the standards set out in Figure 6. Upon joining the scheme, a Trust is visited by an assessor, who assesses progress towards achieving the first level of standards. Approximately sixty-five per cent of member Trusts complied with the level one standards and were entitled to a ten per cent discount on their contribution to the scheme in subsequent years. After they have achieved level one, Trusts may apply for assessment at level two, and then level three. Each subsequent level requires a satisfactory assessment to be given across a greater number of areas of assessment for each of the standards. More significant discounts will be awarded for Trusts, which meet the standards at levels two and three. By May 1998, 18 member Trusts had been assessed at level two, of which nine complied with the standards.
- 5.29 It is too early to assess the impact of awarding discounts for meeting the standards as assessments at level two have only just started. At present, the value of the discounts are small because the overall contributions to the Clinical Negligence Scheme for Trusts are relatively low. However, as the scheme matures, and contributions become significantly larger to meet the expected level of reimbursements from the scheme, the value of discounts for meeting the higher standards could be substantial, especially for major acute hospitals.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Foreword

General

- 1 Section 98(2) of the National Health Service Act 1977 requires NHS organisations in England to prepare annual accounts and to transmit them to the Department of Health. The accounts must be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales.
- 2 Section 98(4) of the Act also requires the Secretary of State to prepare summarised accounts from the individual accounts of the bodies, in such form as the Treasury may direct, and transmit them to the Comptroller and Auditor General. The Act requires him to examine, certify and report on those summarised accounts and permits him to examine the accounts of the individual bodies, any records relating to them and any report of the auditors on them.
- 3 The summarised accounts presented in this paper have been prepared from the accounts, for the year ended 31 March 1997, of:
 - the 100 Health Authorities;
 - the 429 NHS Trusts in England; and
 - the funds held on trust by the Health Authorities, NHS Trusts, Special Health Authorities and Special Trustees.
- 4 In addition this paper covers the accounts of the Dental Practice Board and the following Special Health Authorities, which are summarised individually:
 - the Ashworth Hospital Authority;
 - the Broadmoor Hospital Authority;
 - the Dental Vocational Training Authority;
 - the Family Health Services Appeal Authority;
 - the Mental Health Act Commission;
 - the National Blood Authority;
 - the NHS Litigation Authority;
 - the NHS Supplies Authority;
 - the Prescription Pricing Authority;
 - the Rampton Hospital Authority; and
 - the United Kingdom Transplant Support Service Authority.

5 The audit of the annual accounts of all health organisations in England has been completed and these summarised accounts are therefore based on audited figures.

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

Health Authorities 7 100 Health Authorities were created on 1 April 1996 to combine the operations of the old District Health Authorities and the old Family Health Services Authorities which were abolished on 31 March 1996. Some parts of the old District Health Authorities became NHS Trusts; and their remaining assets and liabilities were transferred to the new Health Authorities. They are responsible for the commissioning of health care on behalf of their resident population. They receive their income almost entirely from the Department of Health.

8 Health Authorities are required to keep their cash and bank balances at an absolute minimum level. They are expected to draw from the Department of Health on a day to day basis only as much cash as is required to meet cheques etc. presented to their bankers for payment. The accounts have been prepared on a full accruals basis.

Financial duties of Health Authorities

9 Health Authorities have a statutory duty, under section 97A of the National Health Service Act 1977, to ensure that net expenditure does not exceed their cash limit(s). The cash limits for each Authority are set by the Secretary of State.

Overall financial performance of Health Authorities in 1996-97

10 In 1996-97 all Health Authorities achieved the financial duty set. There were, however, a number of Health Authorities where an assessment of the recurrent income and expenditure position gave cause for concern about the underlying financial position.

11 At the end of 1996-97 42 Health Authorities were assessed by the NHS Executive to have some level of recurrent financial problems. These recurrent problems were due to a number of factors, including one or more of:

- over-performance on contracts with providers, leading to additional recurrent expenditure;
- in-year and recurrent cost pressures due to factors such as drug costs, increased provision for Mentally Disordered Offenders, and inability to contain extra contractual referral (ECR) expenditure generally;
- problems which result from the historical pattern of health services in the area which can only be resolved by restructuring.

12 Health Authorities were able to meet their statutory financial duty by measures such as reducing current assets and increasing current liabilities.

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

- 13 Where analysis of a Health Authority's financial performance leads the NHS Executive to believe that there is an underlying recurrent financial difficulty, the Health Authority concerned is required to prepare a recovery plan. The appropriate NHS Executive Regional Office will agree the plan and monitor the results closely. This may involve monthly reporting to the Regional Office, regular meetings with senior managers and the Authority achieving specific milestones to ensure satisfactory progress is being made.
- 14 The Regional Offices will focus on the Health Authorities which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans are failing to deliver the desired results.

Public sector payment policy

- 15 The percentage of bills paid in compliance with the public sector payment policy in 1996-97 is as follows:

Compliance	Number of Health Authorities	
	By Number of Bills	By Value of Bills
Between 95% and 100%	15	27
Between 85% and 94.9%	29	34
Between 75% and 84.9%	28	21
Between 65% and 74.9%	14	11
Less than 65%	14	7

Substantial improvements need to be achieved before the target of 95% is attained. This may be more significant in 1998-99 if legislation on the statutory right to claim interest on late debt comes into effect.

NHS Trusts

- 16 NHS Trusts are responsible for the provision of health care. They receive most of their income from purchasers of health care (mainly Health Authorities and General Practitioner fundholders) on the basis of contracts. There were 429 NHS Trusts in England as at 31 March 1997 compared with 433 a year earlier.

Financial duties of NHS Trusts

- 17 NHS Trusts have three main financial duties, which are:
- To ensure that revenue is not less than sufficient, taking one year with another, to meet outgoings properly chargeable to the revenue account.
 - To achieve a rate of return of six per cent on the value of average relevant net assets.
 - To remain within the External Financing Limit (EFL) set for each Trust by the NHS Executive.

Financial monitoring of NHS Trusts by the NHS Executive

- 18 The eight Regional Offices of the NHS Executive are responsible for agreeing an annual business plan with each Trust which indicates how the Trust intends to meet its financial duties; and for monitoring the performance of Trusts against their plans. Every quarter, Trusts are required to provide returns to the relevant Regional Office in a standard format which includes expected outturn against their financial duties. Any Trust which, during the year, forecasts that it will be unable to meet these duties at the year end is included on an exception report which is forwarded to NHS Executive headquarters. The relevant Regional Office works with the Trust to investigate the reasons, particularly whether an underlying financial difficulty exists.
- 19 The NHS Executive recognise that there are factors beyond the control of individual Trusts which may affect the ease or difficulty in meeting their financial duties. These may include changes in accounting policies, revaluation of fixed assets after prices have been set or the requirement to account for provisions before costs are to be included in prices. When, after taking these factors into account, underlying financial difficulties remain, the Trust is expected to agree with the Regional Office a recovery plan to bring it back into financial balance at the earliest opportunity.
- 20 Regional Offices may also approve applications from Trusts for changes to their External Financing Limits. Increases would normally be for capital schemes and would be supported by business cases in line with the process set out in the Capital Investment Manual. The Regional Office may increase the limit, providing the overall limit for NHS Trusts set by the NHS Executive, in agreement with the Treasury, is not exceeded.

Overall financial performance of NHS Trusts in 1996-97

- 21 Following the completion of the audit of the accounts of the 429 individual Trusts for 1996-97, the NHS Executive have analysed their final results against their financial duties. The results are summarised in Table 1.

Table 1: Financial performance of NHS Trusts in England 1996-97

	Number	Percentage
Total NHS Trusts	429	100
Trusts achieving targets:		
Rate of Return		
Before adjusting for immaterial results:	208	48
Before adjustment for technical factors:	265	62
After adjustment for technical factors:	296	69
Breakeven		
Before adjustment for technical factors:	292	68
After adjustment for technical factors:	341	79
External Financing Limit		
Total meeting limit:	412	96
Total meeting or de minimis overshooting:	422	98

Source: Analysis of audit Trust Accounts Forms of individual Trusts 1996-97 by the NHS Executive.

- 22 The results of the analysis compared with 1995-96 indicate more Trusts failing to meet the target return or breakeven duties. This is consistent with the financial pressures noted throughout 1996-97 by the NHS Executive. However, the management of the EFL is more satisfactory with only seven Trusts having a material overshoot in 1996-97.

Technical factors affecting the financial performance of Trusts

- 23 NHS Trusts are required to follow UK Generally Accepted Accounting Practice (UK GAAP) which requires the recognition of some costs in the income and expenditure account in advance of the anticipated cash payments. These costs (such as charges for estimated clinical negligence liabilities or early retirement costs) may cause a deficit, but this does not indicate underlying financial problems as there is no requirement to make the cash payments until they become due at a later date.
- 24 Deficits caused by the accounting treatment may be recovered in prices some time in the future depending on the policy agreed between the Trust and Health Authority. Thus, for example, if costs were reflected fully in prices in the year of cost recognition, this could result in excessive cash balances building up in the system. Conversely, if costs were fully reflected in prices in the year of cash settlement, this could result in income and expenditure deficits prior to the year of cash settlement. In respect of the latter, it may be unavoidable to run a planned deficit one year, matched by surpluses in other years. These costs will be counted as technical in the year in which they are accrued. Similarly, where prices have been set to recover a past technical cost or in expectation of one, the resultant income will also be counted as technical.
- 25 54 Trusts out of the 429 were identified by Regional Offices as having significant financial difficulties at the end of 1996-97. 53 of these failed either the breakeven duty or had a material failure of the target return. 42 Trusts failed both the breakeven and target return duties after adjusting for technical factors.

Reasons for Trusts failing financial duties

- 26 Reasons for Trusts failing in their financial duties were similar to those reported in 1995-96 and included one or more of:
- shortfall of planned income due to optimistic planning assumptions, increased emergency admissions restricting the performance of full cost elective surgery, and difficulties in discharging elderly patients;
 - planned savings under cost improvement programmes not achieved owing to unrealistic plans, unforeseen cost pressures or inadequate management action;
 - over performance on contracts with purchasers not agreeing or not able to fund the extra activity undertaken;
 - cost pressures due to drug costs, combined therapies and/or utilisation of bank or agency staff;
 - financial problems in Health Authorities leading to Trusts being unable to agree prices sufficient to cover their costs plus a six per cent rate of return;
 - recovery plans involving redundancies in the first year to produce recurrent savings in subsequent years.

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

- 27 Where analysis of a Trust's financial performance leads the NHS Executive to believe there is an underlying recurrent financial difficulty, the Trust is required to prepare a recovery plan. The appropriate NHS Executive Regional Office will agree the plan and monitor the results closely. This may involve monthly reporting to the Regional Office, regular meetings with Trust senior managers and the Trust achieving specific milestones to ensure satisfactory progress is being made. Trusts will be required to implement recovery plans which produce breakeven in the shortest possible timescale. In some cases this will be over a period of more than one year, depending on the severity of the problem and the nature of the action required.
- 28 The Regional Offices will focus on the Trusts which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans in place appear not to be producing the designed results.

Review of the NHS Trusts' financial regime

- 29 The recommendations of the Advisory Group on the Review of the Trust Financial Regime came into effect on 1 April 1997. All Trusts are now required to remit the full six per cent Trust Debt Remuneration (TDR) to the NHS Executive, reducing their flexibility to manage the retained surplus/deficits in Trusts.
- 30 Remittance of the full six per cent TDR will result in the removal of the planned overall surplus included within Trust financing in 1997-98. The different basis of funding interest and dividends, agreed with Treasury, will mean that the years 1996-97 and 1997-98 are not directly comparable. In 1997-98 there may be more deficits reported as there is no 'buffer' surplus built into the income and expenditure account. The breakeven duty has been clarified for 1997-98 to include the use of a run of years to prove the breakeven duty. Small surpluses and deficits are forecast over the run of years so that overall Trusts will report a balanced position. Owing to the changes in the financial regime the performance of Trusts will need to be reassessed in 1997-98 as each year cannot now be taken in isolation.

Public sector payment policy

- 31 The percentage compliance with the Public Sector Payment Policy in 1996-97 is as follows:

Compliance	Number of Trusts	
	By Number of Bills	By Value of Bills
Between 95% and 100%	49	84
Between 85% and 94.9%	181	165
Between 75% and 84.9%	98	106
Between 65% and 74.9%	52	35
Between 55% and 64.9%	18	16
Between 45% and 54.9%	16	10
Between 35% and 44.9%	4	7
Less than 35%	11	6

- 32 There have been significant improvements in the payment performance of NHS Trusts since the introduction and monitoring of the policy but further improvement is still required before the target of 95% is attained. This may be more significant in 1998-99 if legislation on the statutory right to claim interest on late debt comes into effect. Regional Offices monitor the performance of individual Trusts and have discussed with poor performing Trusts how their compliance with the policy can be improved.
- The funds held on trust by the Health Authorities, NHS Trusts, Special Health Authorities, and Special Trustees** 33 Health Authorities have power under section 90 of the National Health Service Act 1977 to accept, hold and administer any property on trust for all or any purposes relating to the health service. Section 11 of the National Health Service and Community Care Act 1990 extends this power to NHS Trusts. Under section 91 of the National Health Service Act 1977 any sum so paid to the appropriate hospital authority shall, so far as is practicable, be applied by them for the purpose specified in the trust instrument.
- 34 Some Health Authorities no longer hold funds on trust, following transfer of their funds to Trusts. Also not all NHS Trusts hold funds on trust, because, for instance, Special Trustees hold funds for the relevant hospitals.
- Ashworth Hospital Authority** 35 This Special Health Authority was established on 1 April 1996, under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. The main objective of the Authority is to provide excellence in the assessment, treatment, and rehabilitation of those legally detained patients experiencing mental health problems who require conditions of maximum security.
- 36 The total number of in-patients at the end of the financial year was 470, 421 male and 49 female. The Authority recorded a £537,000 surplus on an income of £45,802,000.
- Broadmoor Hospital Authority** 37 Broadmoor Hospital Authority was established on 1 April 1996, as a Special Health Authority under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. The Authority provides clinical care for mentally disordered patients in conditions of maximum security recognising the need to protect the safety of the public.
- 38 The Authority has approximately 450 patients, 89 women and 361 men. The Authority recorded a £10,000 surplus on an income of £42,344,000.
- Dental Practice Board** 39 This body was established as the Dental Estimates Board on 5 July 1948 under section 40 of the National Health Service Act 1946 which was later consolidated in section 37 of the National Health Service Act 1977. The Board's principal functions relate to the provision of general dental services including making payments to dentists, giving prior approval for certain treatments and relevant surveys and research. The expenses of the Board relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Class XI Vote 1. A proportion of these expenses was met by the Secretary of State for Wales and charged to Class XIV Vote 4.

Dental Vocational Training Authority	40	The Dental Vocational Training Authority was established on 1 October 1993 as a Special Health Authority under section 11 of the National Health Service Act 1977. The main aim of the Authority is to adjudicate applications for vocational training numbers efficiently and effectively within the timescale set by regulations. The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Class XI Vote 1.
Family Health Services Appeal Authority	41	The Family Health Services Appeal Authority was established on 1 April 1995 as a Special Health Authority under section 11 of the National Health Service Act 1977. The main function of the Authority is to perform on behalf of the Secretary of State certain of his appellate and other functions, in connection with decisions and functions of Health Authorities, which were previously exercised on his behalf by the Northern and Yorkshire Regional Health Authority. The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Class XI Vote 1.
Mental Health Act Commission	42	This body was constituted as a Special Health Authority on 1 September 1983 under section 11 of the National Health Service Act 1977 to set standards and monitor the treatment of patients detained under the Mental Health Act 1983. The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class XI Vote 1. A proportion of the expenses of the Authority was met by the Secretary of State for Wales and charged to Class XIV Vote 1.
National Blood Authority	43	On 1 April 1993 the National Blood Authority was formed to replace the Central Blood Laboratories Authority and was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977. On 1 April 1994 the National Blood Authority took over responsibility for the 13 Regional Transfusion Centres from Regional Health Authorities. The Authority now provides a national blood service from the collection of blood through to the testing and processing of blood products, manufacture of plasma products and the resultant distribution to hospitals. The revenue funding of the Authority is mainly from sales income, with all capital and a proportion of revenue expenses being defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class XI Vote 1.
NHS Litigation Authority	44	The NHS Litigation Authority is a Special Health Authority set up on 20 November 1995 under section 11 of the National Health Service Act 1977. Its principal task is to administer schemes set up under section 21 of the National Health Service and Community Care Act 1990 to help NHS organisations pool the costs of any loss or damage to property and liabilities to third parties for loss, damage or injury arising out of the carrying out of their functions.
	45	During the year the Authority has administered three main schemes – the ex-Regional Health Authorities Scheme and the Existing Liabilities Scheme for which they were funded by the Department of Health from monies charged to Class XI Vote 1, and the Clinical Negligence Scheme for Trusts which was funded by contributions from member Trusts.

- NHS Supplies Authority** 46 The NHS Supplies Authority was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977 on 1 October 1991 to assume strategic responsibility for NHS supplies and procurement at a national level. The Authority assumed full responsibility for NHS supplies and procurement on 1 April 1992 and from that date the main source of funding is from the sales of goods and services to other NHS organisations.
- Prescription Pricing Authority** 47 This body was established as a Special Health Authority on 1 April 1974 under sections 5(6) and 6(3) of the National Health Service Act 1973, which was later consolidated in section 11 of the National Health Service Act 1977. The main function of the Authority in 1996-97 was the pricing, on behalf of Health Authorities, of prescriptions for drugs, medicines and appliances for subsequent payment by the appropriate Health Authority. In 1993-94 the Prescription Pricing Authority took on the additional responsibility for the administration of the NHS Low Income Scheme by the Health Benefits Division. The expenses of the Authority were mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class XI Vote 1.
- 48 In April 1996 the Authority set up a new Fraud Investigation Unit. The Unit's work includes checking patient entitlement to exemption from prescription charges, enquiring into allegations of irregularity or fraud by pharmacists/doctors and working closely with Health Authorities and the NHS Executive in promoting fraud awareness through a Fraud Prevention Strategy.
- 49 From 1 April 1997 the Authority has begun to make payments direct to contractors.
- Rampton Hospital Authority** 50 This Special Health Authority was established on 1 April 1996, under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. The Authority serves a national population, currently having patients from 87 Health Authorities and Commissioners in England and Wales. It provides a full range of hospital based services for mentally disordered patients who require treatment and care in conditions of high security.
- 51 The total number of patients at the end of the year was 457 of whom 388 were male and 69 female. The Authority achieved a breakeven position for 1996-97.
- United Kingdom Transplant Support Service Authority** 52 This body was established on 1 April 1991 as a Special Health Authority, under section 11 of the National Health Service Act 1977, to coordinate, support and advise on organ transplantation and related matters at national level. The expenditure of the Authority is mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class XI, Vote 1.

Alan Langlands
Accounting Officer

30 November 1997

Summarised Account of the Health Authorities

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

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 15 to 28 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages 18 to 20.

Respective responsibilities of Accounting Officer and Auditors

As described on page 13 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

I certify that I have examined the financial statements referred to above in accordance with section 98(4) of the National Health Service Act 1977 and the National Audit Office auditing standards, which include relevant Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of health authorities, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly the net assets of the health authorities at 31 March 1997 and their income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

For the Report of the Comptroller and Auditor General see page i

Income and Expenditure Account for the year ended 31 March 1997

Continuing operations

	Notes	£000
Income		
Department of Health revenue funding		31,086,182
Other income		288,421
		<u>31,374,603</u>
Expenditure		
Health care and related services purchased	2	30,441,581
Administration and other services	3	1,171,360
		<u>31,612,941</u>
Authorities' (deficit)		<u>(238,338)</u>
Net revenue operating surplus of directly managed units and common service agencies	4	132
		<u>132</u>
(Deficit) for the financial year		<u>(238,206)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	£000
(Deficit) for the financial year	(238,206)
Unrealised surplus on the revaluation of fixed assets	16,517
Total recognised losses	<u>(221,689)</u>

The notes at pages 18 to 28 form part of this account

Balance Sheet as at 31 March 1997

	Notes	1 April 1996	
		£000	£000
Fixed assets	5	<u>1,453,457</u>	<u>1,690,991</u>
Current assets			
Stocks		1,310	1,117
Debtors	6	1,749,391	- *
Cash at bank and in hand		<u>46,193</u>	<u>85,148</u>
		<u>1,796,894</u>	<u>86,265</u>
Current liabilities			
Creditors: amounts falling due within one year	7	(2,256,567)	(336,169)*
Bank overdraft		<u>(1,592)</u>	<u>(5,403)</u>
		<u>(2,258,159)</u>	<u>(341,572)</u>
Net current (liabilities)		<u>(461,265)</u>	<u>(255,307)</u>
Total assets less current liabilities		<u>992,192</u>	<u>1,435,684</u>
Creditors: amounts falling due after more than one year	8	(22,890)	- *
Provisions for liabilities and charges	9	<u>(306,805)</u>	<u>(297,447)</u>
Total net assets		<u>662,497</u>	<u>1,138,237</u>
Financed by:			
Capital and reserves			
Capital account	12	1,431,603	1,685,360
Donation reserve	13	5,351	5,631
Revaluation reserve	14	16,503	-
Income and Expenditure reserve	15	<u>(790,960)</u>	<u>(552,754)</u>
		<u>662,497</u>	<u>1,138,237</u>

*Opening debtors and creditors have been calculated as a net amount using information on movements in net balances in the year disclosed in underlying accounts as a note to the cashflow statement. The resultant net liability of £336,169,000 is disclosed as a creditor. There are no opening entries either for debtors or for creditors: amounts falling due after more than one year.

The notes at pages 18 to 28 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000
Net cash (outflow) from operating activities	16	(35,463)
Capital expenditure		
Payments to acquire tangible fixed assets		(29,704)
Receipts from the sale of tangible fixed assets		<u>13,539</u>
Net cash (outflow) from capital expenditure		<u>(16,165)</u>
Net cash (outflow) before financing		<u>(51,628)</u>
Financing		
Capital funding		16,292
Donations		331
Capital element of finance lease rental payment		<u>(139)</u>
Net cash inflow from financing		<u>16,484</u>
(Decrease) in cash	17	<u>(35,144)</u>

The notes at pages 18 to 28 form part of this account

Notes to the Account

Accounting Policies 1.1

Accounting convention

This account has been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with the standard accounting practice for the NHS approved by the Secretary of State and accounts directions issued by the Treasury. The health authorities were established on 1 April 1996. As a result this account does not include comparative figures. An opening Balance Sheet has been prepared using information disclosed elsewhere in the account. The cash flow statement shows the movement in cash in the period 1 April 1996 to 31 March 1997.

1.2 Income allocations

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

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1996-97 was 6%.

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i. Land, buildings, installations and fittings held for operational use are stated at their depreciated replacement cost. Surplus land and buildings are stated at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. The last valuation was made on 1 April 1995. Between valuations price indices appropriate to the category of asset are applied to arrive at the current value;
- ii. equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount;
- iii. assets in the course of construction are valued at current cost, including indexation.

c. Depreciation

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

- i. Land and assets in the course of construction are not depreciated;
- ii. buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- iii. equipment is depreciated over the estimated life of the asset:-

	Years
moveable engineering plant and equipment and long life medical equipment	15
furniture and medium life medical equipment	10
mainframe information technology installations	8
vehicles and soft furnishings	7
office, information technology, short life medical and other equipment	5

d. Donated assets

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

1.4 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value.

1.5 Losses and special payments

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

1.6 Pensions contributions

The cost of employer pensions contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.7 Clinical negligence costs

From 1 April 1996 all health authorities were eligible for assistance from the Existing Liabilities Scheme, administered by the NHS Litigation Authority, towards the costs of clinical negligence incidents which occurred prior to 1 April 1995. These accounts show the costs net of any assistance from this scheme. Health authorities provide for the best estimate of their expected share of future payouts in respect of known incidents for certain or probable clinical negligence which can be reasonably estimated. Health authorities' share of other potential payments in respect of known incidents are disclosed in contingent liabilities.

1.8 Research and development

Research and development expenditure is written off as it is incurred.

1.9 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. Rentals under operating leases are charged on a straight line basis over the terms of the leases.

1.10 Auditors' remuneration

Audit fees disclosed in Note 3 are for the audit of the accounts of the individual health authorities. Auditors' remuneration for other work is also disclosed in Note 3.

1.11 GP Fundholding

Health authority expenditure undertaken by GP Fundholders is disclosed in Note 2 of the accounts. Accumulated GP Fundholder savings are disclosed as a creditor in Note 7. The income and expenditure and the statement of working balances at Note 22 represent the aggregate of the transactions of GP Fundholders reported in their accounts.

**Health care and
related services
purchased**

2

£000

Purchase of healthcare by GP Fundholders:

Hospital purchases	2,793,114
Drugs	1,889,565
Other expenses	437,588
GP Fundholder savings for the year	98,255
	<u>5,218,522</u>

Primary healthcare purchased by health authorities:

General medical services (cash limited)	509,765
General medical services (non cash limited)	2,065,902
Pharmaceutical services	2,437,738
General dental services	941,158
General ophthalmic services	237,100
Department of Health Initiative funding	84,378
	<u>6,276,041</u>

Secondary healthcare purchased by health authorities:

Learning difficulties *	1,234,718
Mental illness	2,648,191
Maternity	1,020,257
General and acute	10,461,409
Accident and emergency	745,551
Community Health Services	2,144,165
Other	692,727
	<u>18,947,018</u>

Total healthcare purchased**30,441,581**

Administration and other services	3		£000
		<i>The expenses of the authorities were:</i>	
		Non-executive members' remuneration	4,412
		Other salaries and wages	400,757
		Premises and fixed plant	88,633
		Establishment costs	60,426
		Recharges from NHS bodies	43,316
		Agency services	21,698
		Transport and moveable plant	1,251
		Capital: Depreciation	65,639
		Capital charge interest	91,258
		Auditors remuneration:	
		- Audit fee	8,641
		- Other fees	1,966
		Supplies and Services:	
		- clinical	6,876
		- general	1,868
		Miscellaneous	374,619
			<u>1,171,360</u>
		 <i>Hire and operating rentals included in expenses:</i>	
		Hire of plant and machinery	1,747
		Other operating leases	9,659
			<u>11,406</u>
			 £000
		<i>Authority members' remuneration:</i>	
		Non-executive members' remuneration	4,412
		 <i>Executive members' remuneration:</i>	
		Basic salaries	28,983
		Benefits	1,050
		Performance related bonuses	1,908
		Pension contributions	1,878
		Contributions for loss of office	671
		Pensions to former directors	1,343
			<u>40,245</u>
		 <i>Executive members and staff costs (including authorities' directly managed units and common service agencies):</i>	
		Salaries and wages	352,213
		Social security costs	29,679
		Other pension costs	13,393
		Agency staff	11,587
			<u>406,872</u>

The average number of employees (excluding agency staff) during the year was 19,305.

Directly Managed Units and common services	4	Directly Managed Units £000	Common Service Agencies £000	Total £000
Income		10,045	4,959	15,004
Expenditure		9,852	5,020	14,872
Net surplus/(deficit)		<u>193</u>	<u>(61)</u>	<u>132</u>

Directly managed units provide clinical healthcare under the direct management of the health authority.

Common Services carried out by health authorities include:

- a. Colleges of Nursing;
- b. A unit or estate support service managed directly by a health authority.

Fixed assets	5	Land £000	Buildings, installations and fittings £000	Assets under construction £000
Net book value at 1 April 1996		699,568	945,203	13,820
Additions		1,414	16,612	12,009
Transfers		(58,390)	(33,051)	(7,721)
Indexation		12,602	35,115	338
Other revaluation		(6,349)	(25,000)	-
Depreciation provided during the year:				
- purchased assets		-	(56,671)	-
- donated assets		-	(406)	-
Disposals		(76,637)	(44,030)	(326)
Net book value at 31 March 1997		<u>572,208</u>	<u>837,772</u>	<u>18,120</u>

The net book value of land and buildings at 31 March 1997 comprised:

	£000
Freehold	1,394,880
Long leasehold	11,390
Short leasehold	3,710
	<u>1,409,980</u>

Fixed assets (Continued)	5	Equipment	£000
		Gross replacement cost at 1 April 1996	103,798
		Additions	3,847
		Transfers	(28,560)
		Indexation	1,703
		Revaluation	(1,248)
		Disposals	<u>(10,101)</u>
		Gross replacement cost at 31 March 1997	<u>69,439</u>
		Accumulated depreciation at 1 April 1996	71,398
		Provided during the year:	
		– purchased assets	9,112
		– donated assets	26
		Transfers	(28,873)
		Indexation	878
		Revaluation	(757)
		Disposals	<u>(7,702)</u>
		Accumulated depreciation at 31 March 1997	<u>44,082</u>
		Net book value:	
		– At 1 April 1996	<u>32,400</u>
		– At 31 March 1997	<u>25,357</u>

	Purchased	Donated	Net book value at 31 March 1997	Net book value at 1 April 1996
	£000	£000	£000	£000
Total fixed assets				
Land	572,118	90	572,208	699,568
Buildings, installations and fittings	832,617	5,155	837,772	945,203
Equipment	25,235	122	25,357	32,400
Assets under construction	18,120	–	18,120	13,820
	<u>1,448,090</u>	<u>5,367</u>	<u>1,453,457</u>	<u>1,690,991</u>

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

	£000
Land	10,588
Buildings, installations and fittings	18,398
Equipment	315
Assets under construction	<u>2,328</u>
	<u>31,629</u>

The total amount of depreciation charged to the income and expenditure account in respect of assets held under finance leases and hire purchase contracts was £522,000.

Debtors	6		£000
		Department of Health, health authorities and NHS Trusts	1,509,050
		Prepayments and accrued income	93,736
		Pension prepayments – in respect of staff	17,956
		Other debtors	128,649
			<u>1,749,391</u>

Creditors:	7		£000
Amounts falling due within one year		Department of Health, health authorities and NHS Trusts	688,168
		FHS creditors (contractors)	1,019,595
		GP fundholders savings	234,493
		Non-NHS trade creditors	186,577
		Payments received on account	8,210
		Income tax and social security	6,873
		Rentals due under operating leases	185
		Obligations under finance leases and contracts	463
		Pensions – relating to former directors	85
		relating to other staff	1,329
		Other creditors	110,589
			<u>2,256,567</u>

Creditors:	8		£000
Amounts falling due after more than one year		NHS creditors	15,309
		Obligations under finance leases and hire purchase contracts	4,525
		Pensions – relating to former directors	839
		relating to other staff	1,163
		Other	1,054
			<u>22,890</u>

Provisions for liabilities and charges	9	Pensions relating to former directors	Pensions relating to other staff	Other	Total	
		£000	£000	£000	£000	
		At 1 April 1996	5,142	70,880	221,425	297,447
		Arising during the year	1,014	10,801	87,908	99,723
		Utilised during the year	(1,428)	(11,714)	(77,223)	(90,365)
		At 31 March 1997	<u>4,728</u>	<u>69,967</u>	<u>232,110</u>	<u>306,805</u>

Included in "other" are provisions relating to health authority clinical negligence liabilities.

Finance lease obligations	10		£000
		<i>Amounts payable:</i>	
		Within one year	600
		Between one and five years	2,316
		After five years	3,659
			<u>6,575</u>
		Less: finance charges allocated to future periods	(1,587)
			<u>4,988</u>
		This total net obligation under finance leases can be analysed as follows:	
		Creditors: amounts falling due within one year	463
		amounts falling due after more than one year	4,525
			<u>4,988</u>
<hr/>			
Operating lease commitments	11	<i>Land and buildings</i>	£000
		Commitments under non-cancellable operating leases which expire:	
		Within one year	1,244
		Between one and five years	9,836
		After five years	30,510
			<u>41,590</u>
		<i>Other leases</i>	
		Commitments under non-cancellable operating leases which expire:	
		Within one year	1,199
		Between one and five years	4,046
		After five years	799
			<u>6,044</u>
<hr/>			
Capital account	12		£000
		At 1 April 1996	1,685,360
		Additions	33,551
		Transfers	(98,217)
		Disposals	(123,308)
		Depreciation	(65,783)
		At 31 March 1997	<u>1,431,603</u>
<hr/>			
Donation reserve	13		£000
		At 1 April 1996	5,631
		Additions	331
		Transfers	(121)
		Disposals	(72)
		Revaluation and indexation	14
		Depreciation	(432)
		At 31 March 1997	<u>5,351</u>

Revaluation reserve	14				£000	
		At 1 April 1996			-	
		Revaluations and indexation			17,026	
		Other			(523)	
		At 31 March 1997			<u>16,503</u>	
<hr/>						
Income and expenditure reserve	15				£000	
		At 1 April 1996			(552,754)	
		Transfer from Income and Expenditure account			(238,206)	
		At 31 March 1997			<u>(790,960)</u>	
<hr/>						
Net cash outflow from operating activities	16				£000	
		Operating deficit for the financial year			(238,206)	
		Depreciation on donated assets			432	
		Release from donation reserve			(432)	
		Decrease in net balances with Department of Health, health authorities, and NHS Trusts			54,210	
		(Increase) in stocks			(193)	
		Decrease in other debtors			26,446	
		Increase in other creditors and provisions for liabilities and charges			122,278	
		Net cash (outflow) from operating activities			<u>(35,461)</u>	
<hr/>						
Analysis of cash	17		At 1	Cash	Other	At 31
			April 1996	flows	changes	March 1997
			£000	£000	£000	£000
		Cash at bank and in hand	85,148	(38,955)	-	46,193
		Bank overdraft	(5,403)	3,811	-	(1,592)
		Debt due within one year	460	(26)	29	463
		Debt due after one year	5,006	(291)	(190)	4,525
			<u>85,211</u>	<u>(35,461)</u>	<u>(161)</u>	<u>49,589</u>
<hr/>						
Contingent liabilities	18	<i>Authorities reported contingent liabilities as follows:</i>				£000
		Medical and employer negligence				(271,333)
		Other				(12,119)
						<u>(283,452)</u>

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

Capital commitments	19	<i>Health authorities had the following capital commitments as at 31 March 1997:</i>	
			£000
		Contracted	10,456
		Authorised but not contracted	9,876
			<u>20,332</u>

Losses and special payments **20** There were 9,248 cases of losses and special payments totalling £133,564,710 approved during 1996-97. There were no clinical negligence cases where the net payment exceeded £1,000,000. Except for the following there were no cases where payment exceeded £100,000 (other than clinical negligence). There were 15 personal injury cases where the payment exceeded £100,000, totalling £2,577,000. There were 34 compensation under legal obligation cases where the payment exceeded £100,000, totalling £13,636,631.

Extra-Statutory Payments

In 1996-97 Health Authorities made payments totalling £3,578,000 relating to payments made from GMS cash limited funds that were deemed to be extra-statutory.

Post balance sheet events **21** From 1 April 1997, the Prescription Pricing Authority became responsible for making direct payments to pharmaceutical, appliance and oxygen contractors. Payments made by the PPA will include meeting the liabilities totalling some £1 billion accrued in health authority accounts at the end of March 1997 for prescription items received in the 1996-97 financial year.

The second phase of the transfer took place from 1 July 1997 when the PPA took over responsibility for payments to contractors made at the discretion of health authorities.

The final phase of reimbursements to dispensing doctors and to all general practitioners for personally administered items is planned to take effect in the 1998-99 financial year.

Prescription costs and their related funding will continue to be included in the health authorities summarised account.

GP Fundholding accounts for the year ended 31 March 1997	22	Income and Expenditure account	£000
		Income	
		Practice budgets allocated by health authorities	<u>5,237,170</u>
		Expenditure	
		Hospital services	2,793,114
		Drugs and appliances	1,889,565
		Other costs	<u>437,534</u>
		Total expenditure	<u>5,120,213</u>
		Surplus for the financial year	116,957
		Surplus brought forward	183,325
		Spent on other items	(57,575)
		Savings surrendered	<u>(8,214)</u>
		Surplus carried forward	<u>234,493</u>

Statement of Working Balances

	£000
Current Assets	
Debtors	
NHS debtors	661,573
Other debtors	6,173
Prepayments	<u>6,201</u>
	673,947
Cash at Bank	<u>10,245</u>
	<u>684,192</u>
Current Liabilities	
Creditors – Amounts falling due within one year	
NHS bodies	293,559
Other creditors	73,202
Accruals	<u>81,324</u>
	448,085
Bank overdraft	<u>1,614</u>
	<u>449,699</u>
Net current assets	<u>234,493</u>
Financed by:	
Retained surplus	<u>234,493</u>

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

Health Authorities

1. The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of the Health Authorities. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

Basis of Preparation

2. The summarised account of the Health Authorities shall be prepared from the audited accounts of the individual Health Authorities to which it relates and shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, insofar as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Form and Content

3. The summarised account of the Health Authorities shall comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Health Authorities.

4. For the financial year ended 31 March 1997, the summarised account of the Health Authorities shall present fairly the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses and cashflows during the year.

5. For financial years subsequent to that ended 31 March 1997, the summarised account of the Health Authorities shall give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses and cashflows during the year.

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

Miscellaneous

7. The direction shall be reproduced as an appendix to the published accounts.

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

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

Accounting Standards

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

Schedule 2

ADDITIONAL REQUIREMENTS

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

Summarised Account of NHS Trusts

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 37 to 53 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages 41 to 43.

Respective responsibilities of Accounting Officer and Auditors

As described on page 35 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

I certify that I have examined the financial statements referred to above in accordance with section 98(4) of the National Health Service Act 1977 and the National Audit Office auditing standards, which include relevant Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of NHS Trusts, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of NHS Trusts at 31 March 1997 and their deficit, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

For the Report of the Comptroller and Auditor General see page i

Income and Expenditure Account for the year ended 31 March 1997

Continuing operations

	Notes	£000	1995-96 £000
Operating activities			
Income from activities	2	20,819,176	19,836,436
Other operating income	3	3,092,750	2,832,902
Operating expenses	4,5	<u>(22,972,924)</u>	<u>(21,749,773)</u>
Operating surplus		939,002	919,565
Loss on disposal of fixed assets	6	<u>(11,638)</u>	<u>(12,379)</u>
Surplus before interest		927,364	907,186
Interest receivable		58,153	65,556
Interest payable	7	<u>(828,650)</u>	<u>(803,579)</u>
Surplus on ordinary activities		<u>156,867</u>	<u>169,163</u>
Public Dividend Capital dividends payable		<u>(207,355)</u>	<u>(123,066)</u>
Retained (deficit)/surplus for the year		<u>(50,488)</u>	<u>46,097</u>
Financial target performance	8	5.1%	5.2%

The notes at pages 41 to 53 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Surplus for the financial year		156,867	169,163
Unrealised surplus on fixed asset revaluations/indexation	15	462,456	1,172,950
Increase in the donation reserve due to receipt of donated assets	15.2	103,303	85,778
Reduction in the donation reserve due to depreciation and disposal of donated assets	15	(48,269)	(43,404)
Adjustment to clinical negligence provision		-	(21,687)
(Reductions) to other reserves	15	(6,554)	(5,882)
Total recognised gains for the financial year		<u>667,803</u>	<u>1,356,918</u>

The notes at pages 41 to 53 form part of this account.

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed assets			
Tangible fixed assets	9	20,980,201	20,150,641
Current assets			
Stocks		300,606	288,423
Debtors: Amounts falling due within one year	10	1,228,754	1,087,192
Amounts falling due after one year	10	25,231	15,339
Short-term investments	11	46,129	84,619
Cash at bank and in hand		<u>220,444</u>	<u>79,862</u>
		1,821,164	1,555,435
Current liabilities			
Creditors: Amounts falling due within one year	12	(2,527,205)	(2,272,742)
Bank overdrafts		<u>(44,674)</u>	<u>(41,540)</u>
		(2,571,879)	(2,314,282)
Net current liabilities		<u>(750,715)</u>	<u>(758,847)</u>
Total assets less current liabilities		<u>20,229,486</u>	<u>19,391,794</u>
Creditors:			
Amounts falling due after more than one year	12	(8,992,627)	(8,806,809)
Provision for liabilities and charges	13	(316,991)	(219,924)
Total assets employed		<u>10,919,868</u>	<u>10,365,061</u>
Financed by:			
Capital and reserves			
Public Dividend Capital	14	8,439,485	8,348,335
Revaluation reserve	15	1,467,701	1,024,328
Donation reserve	15	686,353	604,593
Other reserves	15	19,544	21,201
Income and expenditure reserve	15	<u>306,785</u>	<u>366,604</u>
		10,919,868	10,365,061

The notes at pages 41 to 53 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	£000	1995-96 £000
Operating activities				
Net cash inflow from operating activities	16		1,992,598	1,917,916
Returns on investments and servicing of finance				
Interest received		60,855		66,826
Interest paid		(827,386)		(799,709)
Interest element of finance lease rental payments		(4,199)		(3,143)
Net cash (outflow) from returns on investments and servicing of finance			(770,730)	(736,026)
Capital expenditure				
Payments to acquire fixed assets		(1,242,273)		(1,564,296)
Receipts from sale of fixed assets		116,217		72,351
Net cash (outflow) from capital expenditure			(1,126,056)	(1,491,945)
Dividends paid			(207,285)	(124,141)
Management of liquid resources				
Payments to acquire investments		(4,082,383)		(3,531,749)
Receipts from sale of investments		4,063,074		3,505,479
Net cash (outflow) from management of liquid resources			(19,309)	(26,270)
Net cash (outflow) before financing			(130,782)	(460,466)
Financing				
New Public Dividend Capital issued		70,701		84,750
Repayment of Public Dividend Capital		(2,000)		-
New long-term loans		687,131		810,490
New short-term loans		502,703		533,685
Repayments of amounts borrowed		(1,077,742)		(988,626)
Other capital receipts		31,750		36,304
Capital element of finance lease rental payments		(2,212)		(1,588)
Net cash inflow from financing			210,331	475,015
Increase in cash	17		79,549	14,549

The notes at pages 41 to 53 form part of this account.

Notes to the Account

Accounting policies

1a. Accounting convention

This account has been prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury, to show a true and fair view and to comply with accounting standards issued or adopted by the Accounting Standards Board insofar as these are appropriate to NHS Trusts. The comparative figures are for the year ended 31 March 1996 and exclude the sixth wave NHS Trusts which were not required to disclose opening balances or prior year comparative figures for the year ended 31 March 1996.

The cashflow statement for the period 1 April 1995 to 31 March 1996 has been restated in order to comply with revised FRS1, with deposits which can be withdrawn within 24 hours reclassified from short term investments to cash. The movements in the period 1 April 1996 to 31 March 1997 are due to the operation of the 429 NHS Trusts and do not include the movements that resulted solely from the transfer of assets from health authorities to the sixth wave NHS Trusts.

b. Fixed assets

i. Capitalisation

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

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

ii. Valuation

Land, buildings, installations and fittings held for operational use are stated at their depreciated replacement cost. Land and buildings which are surplus to requirements are valued at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. The last such valuations were on 1 April 1995. Between valuations price indices appropriate to the category of asset are applied to arrive at a current value.

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

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

iii. Depreciation

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

- freehold land and assets in the course of construction are not depreciated. Buildings, installations, and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Depending on the type of installation or fitting it is expected that the maximum useful lives will be in the range of 15-80 years;

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

	Years
moveable engineering plant and equipment and long life medical equipment	15
furniture and medium life medical equipment	10
mainframe information technology installations	8
vehicles and soft furnishings	7
office, information technology, short life medical and other equipment	5

iv. Donated assets

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

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

v. Leasing

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

c. Stocks

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

d. Research and development

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

e. Clinical negligence costs

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

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

f. Auditors' remuneration

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

Income from activities	2	1995-96	
		£000	£000
Health authorities		17,480,051	17,539,794
General practitioner fundholders		2,817,686	1,793,313
Department of Health		133,322	172,526
Non-NHS – private patients		235,733	207,448
other		152,384	123,355
		<u>20,819,176</u>	<u>19,836,436</u>

Other operating income	3	1995-96	
		£000	£000
Education, training and research		1,406,724	1,231,749
Patient transport services		4,401	4,620
Charitable and other contributions to expenditure		40,755	25,012
Transfers from the donation reserve in respect of depreciation on donated assets		49,562	43,404
Other income from activities		1,591,308	1,528,117
		<u>3,092,750</u>	<u>2,832,902</u>

Operating expenses 4	4.1 <i>Operating expenses include:</i>	Notes	£000	1995-96 £000
	Non-executive board members' remuneration	4.4	17,600	17,775
	Salaries and wages (excluding non-executive board members' fees)	5	15,151,356	14,326,724
	Supplies and services – clinical		2,593,963	2,381,861
	– general		521,511	499,209
	Premises		1,502,872	1,467,955
	Depreciation	9	912,939	836,149
	Contracts with other NHS bodies		644,108	666,694
	Establishment		640,047	627,759
	Transport		139,627	122,664
	Clinical negligence	22	72,714	44,241
	Provision for irrecoverable debts		14,762	14,547
	Auditors' remuneration:			
	Audit fees		18,563	19,080
	Other auditors' remuneration		12,292	11,323
	Other		730,570	713,792
			<u>22,955,324</u>	<u>21,749,773</u>

4.2 <i>Hire and operating lease rentals</i>	£000
Hire of land and buildings	82,450
Other operating leases	96,870
	<u>179,320</u>

The total for hire and lease rentals in 1995-96 was £170,019,000.

4.3 <i>Operating lease commitments</i>	£000	1995-96 £000
Land and buildings		
Expiring within 1 year	14,872	13,249
Expiring between 1 and 5 years	49,713	64,489
Expiring after 5 years	32,317	29,442
	<u>96,902</u>	<u>107,180</u>
Other leases		
Expiring within 1 year	26,457	19,460
Expiring between 1 and 5 years	83,839	62,437
Expiring after 5 years	4,354	2,064
	<u>114,650</u>	<u>83,961</u>

<i>4.4 Board Members' remuneration</i>	1995-96	
	£000	£000
Non-executive directors' remuneration	17,600	17,775
Executive directors' remuneration:		
– Basic salaries	117,939	115,916
– Benefits	4,862	4,884
– Performance related bonuses	3,212	3,688
– Pension contributions	4,756	4,674
– Compensation for loss of office	2,741	2,072
– Pensions to former directors (early retirees)	1,971	2,110
	<u>153,081</u>	<u>151,119</u>

£223,000 (1995-96 £231,000) remuneration was waived by 42 (1995-96 45) directors. £5,000 (1995-96 £8,000) of allowances were paid in lieu.

**Staff costs
and numbers**

<i>5.1 Staff costs</i>	1995-96	
	£000	£000
Salaries and wages	13,281,859	12,605,697
Social security costs	962,394	914,706
Other pension costs	465,344	424,460
Agency staff	441,759	381,861
	<u>15,151,356</u>	<u>14,326,724</u>

<i>5.2 Average number of total staff</i>	1995-96	
	Number	Number
Medical and dental	54,481	51,434
Ambulance staff	17,961	15,386
Administration and estates	143,813	141,552
Healthcare assistants and other support staff	82,058	79,582
Nursing, midwifery and health visiting staff	313,674	315,188
Nursing, midwifery and health visiting learners	2,546	4,311
Scientific, therapeutic and technical staff	94,157	90,143
Other	15,922	20,209
	<u>724,612</u>	<u>717,805</u>

5.3 Staff benefits

The amount spent on staff benefits during the year totalled £2,154,000 (1995-96 £2,700,000).

5.4 Pensions

Most NHS Trusts participate in the NHS pension scheme. This is a statutory, defined contribution scheme, the provisions of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS Trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of Treasury. For 1996-97, the contribution rate was 4% (1995-96, 4%). Contributions totalling £35,685,000 (1995-96 £33,279,000) are included within creditors.

Loss on disposal of fixed assets	6	1995-96		
		£000	£000	
		Net loss on disposal of land and buildings	2,974	3,271
		Net loss on disposal of plant and equipment	8,664	9,108
			<u>11,638</u>	<u>12,379</u>

Interest payable	7	1995-96		
		£000	£000	
<i>Interest payable is in respect of the following:</i>				
		Originating interest bearing debt	641,634	666,903
		Further government borrowing	183,052	133,076
		Other interest	3,964	3,600
			<u>828,650</u>	<u>803,579</u>

Financial target performance 8 NHS Trusts are required to meet a financial target of a 6% return on average relevant net assets before dividends and interest. The rate of return achieved for the year was 5.1 % (1995-96 5.2%) calculated as the percentage that the relevant surplus of £936 million (1995-96 £915 million) bears to the average relevant net assets of £18,465 million (1995-96 £17,710 million).

NHS Trusts also report an adjusted rate of return which takes account of various factors which have changed since prices were set for 1996-97. These include changes in accounting policies for clinical negligence and Private Finance Initiatives, together with the part of the in-year provision for early retirements which the Trusts have not planned to recover in their 1996-97 prices. After these adjustments, the rate of return was 5.6% (1995-96 6%), calculated as the percentage that the relevant surplus of £1,026 million (1995-96 £1,029 million) bears to the average relevant net assets of £18,465 million (1995-96 £17,293 million).

Fixed assets	9	9.1	Land	Buildings, installations and fittings	Assets under construction	
			£000	£000	£000	
			Net book value as at 31 March 1996	3,180,259	14,247,695	1,028,472
			Net book value of sixth wave Trusts at 1 April 1996	36,996	88,959	1,885
			Additions – Purchased	10,144	325,788	654,144
			Additions – Donated	1,040	30,734	24,976
			Transfers	14,458	640,475	(742,754)
			Indexation	62,856	553,765	33,534
			Depreciation provided during the year	-	(536,872)	-
			Revaluation	(12,956)	(191,123)	(38,756)
			Disposals	(56,649)	(62,409)	(11,689)
			Net book value as at 31 March 1997	<u>3,236,148</u>	<u>15,097,012</u>	<u>949,812</u>

	Equipment £000
Gross replacement cost at 31 March 1996	4,358,315
Value of sixth wave Trusts at 1 April 1996	31,692
Additions – Purchased	219,361
– Donated	46,244
Transfers	73,103
Indexation	109,886
Revaluation	(26,070)
Disposals	(220,937)
Gross replacement cost at 31 March 1997	<u>4,591,594</u>
Accumulated depreciation at 31 March 1996	2,664,100
Value of sixth wave Trusts at 1 April 1996	6,461
Provided during the year	376,067
Additions – Purchased	1,318
– Donated	530
Transfers	(1,235)
Indexation	66,324
Revaluation	(21,947)
Disposals	(197,253)
Depreciation at 31 March 1997	<u>2,894,365</u>
Net book value at 31 March 1996	1,694,215
Net book value at 31 March 1997	1,697,229

<i>9.2 Total tangible fixed assets:</i>	Purchased	Donated	Total	31 March 1996
Net book value:	£000	£000	£000	£000
Land	3,224,065	12,083	3,236,148	3,180,259
Buildings, installations and fittings	14,668,576	428,436	15,097,012	14,247,695
Equipment	1,518,888	178,341	1,697,229	1,694,215
Assets under construction	881,812	68,000	949,812	1,028,472
	<u>20,293,341</u>	<u>686,860</u>	<u>20,980,201</u>	<u>20,150,641</u>

<i>9.3 The net book value of land and buildings comprises:</i>	31 March 1996	
	£000	£000
Freehold	17,989,525	17,082,757
Long leasehold	336,872	339,987
Short leasehold	6,763	5,210
	<u>18,333,160</u>	<u>17,427,954</u>

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

	31 March 1996	
	£000	£000
Land	4,255	7,450
Buildings, installations and fittings	37,119	37,017
Equipment	3,113	3,277
Assets under construction	300	958
	<u>44,787</u>	<u>48,702</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £2,786,000 (1995-96 £2,816,000).

Debtors	10	10.1 <i>Amounts falling due within one year:</i>	31 March 1996	
			£000	£000
		National Health Service debtors	701,994	544,410
		Pension prepayments:		
		in respect of former directors	3	5
		in respect of other staff	793	477
		Other prepayments and accrued income	145,890	147,166
		Deferred expenditure	-	554
		Provision for irrecoverable debts	(29,419)	(24,302)
		Other	409,493	418,882
			<u>1,228,754</u>	<u>1,087,192</u>
		10.2 <i>Amounts due after more than one year:</i>		
		National Health Service debtors	14,043	1,653
		Pension prepayments:		
		in respect of staff	4,105	4,318
		Other prepayments and accrued income	3,079	6,581
		Other	4,004	2,787
			<u>25,231</u>	<u>15,339</u>
		Total Debtors	<u>1,253,985</u>	<u>1,102,531</u>

Short-term investments	11		31 March 1996	
			£000	£000
		Government securities	1,500	882
		Other	44,629	83,737
			<u>46,129</u>	<u>84,619</u>

Creditors	12	12.1 <i>Amounts falling due within one year:</i>	31 March 1996	
			£000	£000
		National Health Service creditors	426,028	346,623
		Accruals and deferred income	326,022	285,048
		Payments received on account	31,920	30,775
		PDC dividend payable	300	230
		Interest payable	35,193	33,929
		Current instalments due on loans	594,073	563,226
		Patients' money	42,703	48,572
		Payroll and related creditors	275,383	241,109
		Obligations under finance leases and hire purchase contracts	2,638	2,628
		Non-NHS trade creditors – revenue	502,517	437,621
		– capital	136,076	145,820
		Pensions:		
		relating to former directors	577	412
		relating to other staff	13,476	15,573
		Other	140,299	121,176
			<u>2,527,205</u>	<u>2,272,742</u>
		 12.2 <i>Amounts falling due after more than one year:</i>		
		Long term loans	8,922,362	8,746,767
		Obligations under finance leases and hire purchase contracts	37,986	34,912
		National Health Service creditors	270	244
		Pensions:		
		relating to former directors	1,308	657
		relating to other staff	20,324	16,637
		Other	10,377	7,592
			<u>8,992,627</u>	<u>8,806,809</u>
		 12.3 <i>Loans</i>		
			Government	Other
			£000	£000
		Payment of principal falling due in:		Total
		0-1 years	592,711	1,362
		1-2 years	520,958	50
		2-5 years	1,417,082	50
		Over 5 years	6,984,222	–
		Total	<u>9,514,973</u>	<u>1,462</u>
		 <i>Of which:</i>		
		Wholly repayable within 5 years	296,265	1,462
		Wholly or partially repayable after 5 years by instalments	9,218,708	–
		Total	<u>9,514,973</u>	<u>1,462</u>
		Total repayable after 5 years	<u>6,900,404</u>	<u>–</u>

12.4 <i>Finance lease obligations</i>		31 March	
		1996	
<i>Leases payable:</i>	£000	£000	
Within 1 year	5,941	5,824	
Between 1 and 5 years	20,080	19,099	
After 5 years	86,432	75,370	
Finance charges allocated to future periods	(71,829)	(62,753)	
	<u>40,624</u>	<u>37,540</u>	

Provisions for liabilities and charges	13	Pensions: Relating to former directors	Pensions: Relating to other staff	Clinical negligence	Other	Total	
		£000	£000	£000	£000	£000	
		At 31 March 1996	2,779	76,541	80,915	59,689	219,924
		Arising during the year	1,737	52,849	62,916	39,140	156,642
		Utilised during the year	(1,279)	(19,662)	(14,961)	(23,673)	(59,575)
At 31 March 1997	<u>3,237</u>	<u>109,728</u>	<u>128,870</u>	<u>75,156</u>	<u>316,991</u>		

The provision for clinical negligence is net of expected payments from the Clinical Negligence Scheme for Trusts and net of any expected payments from the Existing Liabilities Scheme.

Public Dividend Capital	14	31 March	
		1996	
		£000	£000
		<i>Public Dividend Capital was issued as follows:</i>	
		During previous years	8,348,335
At the opening of the year	22,449	254,588	
During the year	70,701	84,750	
Repaid during the year	(2,000)	-	
	<u>8,439,485</u>	<u>8,348,335</u>	

Movement on reserves	15	15.1 <i>Revaluation reserve</i>	£000
		As at 31 March 1996	1,024,328
		Revaluation of fixed assets	427,676
		Other movements	15,697
		As at 31 March 1997	<u>1,467,701</u>

Movement on reserves (Continued)	15	15.2 <i>Donation reserve</i>	£000	
		As at 31 March 1996	604,593	
		Value of sixth wave Trusts at 1 April 1996	6,316	
		Revaluation of fixed assets	19,083	
		Receipt of donated assets	103,303	
		Depreciation of donated assets	(49,562)	
		Other movements	2,620	
		As at 31 March 1997	<u>686,353</u>	
		15.3 <i>Other reserves</i>	£000	
		As at 31 March 1996	21,201	
		Other movements	(1,657)	
As at 31 March 1997	<u>19,544</u>			
		15.4 <i>Income and expenditure reserve</i>	£000	
		As at 31 March 1996	366,604	
		Write off of net surplus of merged sixth wave trusts at 1 April 1996	(4,434)	
		Transfer from income and expenditure account	(50,488)	
		Other movements	(4,897)	
		As at 31 March 1997	<u>306,785</u>	
<hr/>				
Reconciliation of operating surplus to net cash inflow from operating activities	16		1995-96	
			£000	£000
		Operating surplus	939,002	919,565
		Depreciation	912,939	836,149
		(Increase) in stocks	(12,183)	(27,514)
		(Increase) in debtors	(151,454)	(86,501)
		Increase in creditors and provisions for liabilities and charges	330,906	357,766
		Transfer from donation reserve in respect of depreciation on donated assets	(49,562)	(43,404)
		Other non-cash movements	22,950	(38,145)
		Net cash inflow from operating activities	<u>1,992,598</u>	<u>1,917,916</u>
<hr/>				
Reconciliation of net cash flows to movement in net debt	17		£000	
		(Increase) in cash in year	(79,549)	
		Cash inflow from new debt	1,189,834	
		Cash (outflow) from debt repaid and finance lease capital payments	(1,079,954)	
		Cash (outflow) from increase in liquid resources	(19,409)	
		Changes in net debt resulting from cash flows	10,922	
		Non-cash changes in debt	5,286	
		Net debt at 1 April 1996	<u>9,316,314</u>	
Net debt at 31 March 1997	<u>9,332,522</u>			

Analysis of the change in net debt	18	1 April	Change	31 March
		1996	in year	1997
		£000	£000	£000
Cash at bank and in hand		137,761	82,683	220,444
Bank overdrafts		(41,540)	(3,134)	(44,674)
Debt due within one year		(563,226)	(30,847)	(594,073)
Debt due after one year		(8,841,117)	(81,245)	(8,922,362)
Finance leases		(34,912)	(3,074)	(37,986)
Current asset investments		26,720	19,409	46,129
		<u>(9,316,314)</u>	<u>(16,208)</u>	<u>(9,332,522)</u>

Reconciliation of movements in government funds	19	£000	
Surplus for the financial year			156,867
Less Public Dividend Capital dividends			(207,355)
			<u>(50,488)</u>
Additions at 1 April 1996			107,366
Gains from revaluation/indexation of purchased fixed assets			427,676
New Public Dividend Capital			70,701
Public Dividend Capital repaid			(2,000)
New loans from Government			1,189,834
Government loans repaid			(1,073,782)
Addition in other reserves			9,143
Net increase in Government Funds			<u>678,450</u>
Government Funds at 31 March 1996			<u>19,065,038</u>
Government Funds at 31 March 1997			<u>19,743,488</u>

Capital commitments	20	31 March	
		1996	1997
		£000	£000
Contracted		511,028	577,029
Authorised by the boards, but not contracted		-	881,911
		<u>511,028</u>	<u>1,458,940</u>

Contingent liabilities 21 Potential net contingent liabilities totalling £191,191,000 (1995-96 £133,637,000) have not been accrued as the outcome of these cases is uncertain. These include cases of clinical litigation which are net of possible contributions from the Clinical Negligence Scheme for Trusts (CNST) and the Existing Liabilities Scheme.

Clinical negligence	22	Charges to operating expenses: Contribution to CNST Settlements not previously accrued In-year provision for future settlements: – Gross provision – Less expected from NHS Litigation Authority	£000 <u>7,963</u> <u>1,835</u> <u>248,932</u> <u>(186,016)</u> <u>72,714</u>
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No comparative analysis is available. The total amount charged to the income and expenditure account in respect of clinical negligence claims in 1995-96 was £44,241,000.

Losses and special payments	23	There were 105,947 (1995-96 110,881) cases of losses and special payments totalling £44,637,000 (1995-96 £90,320,000) approved during 1996-97. These included: 0 capital schemes abandoned (1995-96 3) totalling £0 (1995-96 £1,539,000); 7 personal injury cases (1995-96 4) totalling £1,029,000 (1995-96 £586,000); 5 payments under legal obligation (1995-96 4) totalling £698,000 (1995-96 £1,540,000); 6 clinical negligence cases (1995-96 11) totalling £2,707,000 (1995-96 £1,934,000) and, 3 fruitless payments (1995-96 0) totalling £485,000 where payments exceeded £100,000.
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The National Health Service in England Summarised Accounts Direction given by the Treasury in accordance with section 98(4) of the National Health Service Act 1977

NHS Trusts

1. The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of the NHS Trusts. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

Basis of Preparation

2. The summarised account of the NHS Trusts shall be prepared from the audited accounts of the individual NHS Trusts to which it relates and shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, insofar as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Form and Content

3. The summarised account of the NHS Trusts shall comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the NHS Trusts.

4. The summarised account of the NHS Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and of the income and expenditure, total recognised gains and losses, and cashflows during the year.

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

Miscellaneous

6. The direction shall be reproduced as an appendix to the published accounts.

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

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

Accounting Standards

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

Schedule 2

ADDITIONAL REQUIREMENTS

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

Summarised Account of the Funds Held on Trust

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 61 to 69 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages 63 to 65.

Respective responsibilities of Accounting Officer and Auditors

As described on page 59 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to me was limited because funds' income includes voluntary donations, and the appointed auditors qualified their opinions on a significant number of underlying accounts. The qualifications were given on the basis that controls over this type of income were not sufficient to permit appointed auditors to rely on them for the purposes of their audit. There were no other satisfactory audit procedures that I could adopt to confirm that voluntary donations were recorded in their entirety in the summarised account.

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

Qualified opinion arising from limitation in audit scope

Except for any adjustments which might have been found to have been necessary had I been able to obtain sufficient audit evidence concerning voluntary donations, in my opinion the financial statements present fairly the state of affairs of the funds held on trust by health authorities, NHS Trusts, special health authorities and special trustees at 31 March 1997 and their incoming resources and application of resources for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

See paragraphs 2.8 to 2.17 of my Report.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Statement of Financial Activities for the year ended 31 March 1997

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000
Incoming resources					
Donations		67,859	77,482	182	145,523
Legacies		31,918	17,193	1,482	50,593
Grants receivable		15,610	4,509	421	20,540
Investment income		56,582	18,306	257	75,145
Net income from non-charitable trading		1,246	3,190	-	4,436
Income from charitable trading		4,891	1,623	-	6,514
Other incoming resources		10,955	6,837	299	18,091
Total incoming resources		189,061	129,140	2,641	320,842
Resources expended					
Direct charitable expenditure:					
Grants payable	2.1	107,322	61,156	109	168,587
Other direct charitable expenditure	2.2	61,757	55,212	1,556	118,525
Total direct charitable expenditure		169,079	116,368	1,665	287,112
Other expenditure:					
Fundraising and publicity		3,330	1,395	-	4,725
Management and administration		10,168	3,702	38	13,908
Total other expenditure		13,498	5,097	38	18,633
Total resources expended	3.1	182,577	121,465	1,703	305,745
Net incoming resources before transfers		6,484	7,675	938	15,097
Gross transfer between funds		1,145	335	(1,480)	-
Net incoming/(outgoing) resources		7,629	8,010	(542)	15,097
Gains on investment assets:					
Realised		12,221	4,934	305	17,460
Unrealised		53,105	15,855	1,343	70,303
Unrealised gains on tangible fixed assets		9,115	284	1,015	10,414
Net movement in funds		82,070	29,083	2,121	113,274
Fund balances brought forward at 1 April 1996		961,195	350,716	28,531	1,340,442
Fund balances carried forward at 31 March 1997		1,043,265	379,799	30,652	1,453,716

The notes at pages 63 to 69 form part of this account.

Balance Sheet as at 31 March 1997

	Notes	31 March 1997 £000	1 April 1996 £000
Fixed assets			
Tangible assets	5	64,391	53,655
Investments	7	<u>1,252,369</u>	<u>1,174,958</u>
Total fixed assets		1,316,760	1,228,613
Current assets			
Stocks		269	274
Debtors	8	42,139	38,465
Short term investments and deposits		102,176	75,965
Cash at bank and in hand		<u>63,559</u>	<u>64,844</u>
		208,143	179,548
Creditors: Amounts falling due within one year	9.1	<u>(68,847)</u>	<u>(64,465)</u>
Net current assets		139,296	115,083
Total assets less current liabilities		1,456,056	1,343,696
Creditors:			
Amounts falling due after more than one year	9.2	<u>(2,340)</u>	<u>(3,254)</u>
Net assets		<u>1,453,716</u>	<u>1,340,442</u>
Capital Funds:			
Endowment Funds		30,652	28,531
Income Funds:			
Restricted		379,798	350,716
Unrestricted		<u>1,043,266</u>	<u>961,195</u>
Total funds		<u>1,453,716</u>	<u>1,340,442</u>

The notes at pages 63 to 69 form part of this account.

Alan Langlands
Accounting Officer

1 July 1998

Notes to the Account

Accounting policies

1.1 Accounting convention

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

1.2 Prior year comparatives

This is the first year of applying the Statement of Recommended Practice. The format of the accounts and the accounting policies have changed substantially compared to those applicable to 1995-96. There have also been significant structural changes to the NHS organisations responsible for reporting the various funds. It is not therefore practical to show prior year comparatives in this account. An opening balance sheet is shown, but not analysed in the notes to the account.

1.3 Cash flow statement

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

1.4 Incoming resources

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

- a) Cash donations, gifts, legacies, investment income and cash collected from fund raising events are included in full in the statement of financial activities as soon as the conditions for receipt have been met and there is a reasonable assurance of receipt.
- b) *Gifts in kind*
 - i Assets given for distribution by the funds are included in the Statement of Financial Activities only when distributed.
 - ii Assets given for use by the funds (e.g. property for its own occupation) are included in the Statement of Financial Activities as incoming resources when receivable.
 - iii Gifts made in kind but on trust for conversion into cash and subsequent application by the funds are included in the accounting period in which the gift is sold.

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

c) Intangible income

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

d) Deferred income

Income is shown on the Statement of Financial Activities net of deferred income. Deferred income as at 31 March 1997 is disclosed within Note 9.1.

1.5 Fixed assets*a. Capitalisation*

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i land, buildings, installations and fittings are stated at open market value for their existing use. Valuations are carried out professionally at five yearly intervals. The last valuation was made on the 1 April 1996. Between valuations an appropriate index is applied to revalue the assets;
- ii equipment is valued at the lower of estimated net replacement cost or recoverable amount;
- iii assets in the course of construction are valued at current cost.

c. Depreciation

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

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

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

d. Donated assets

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

1.6 Investment fixed assets

Investment fixed assets are shown at market value.

- i Property assets are not depreciated but are shown at market valuation. Valuations are carried out by professional valuers at five yearly intervals. The last such valuation was at 1 April 1996. Between valuations trustees make a best estimate of market value. Valuation gains and losses are recorded in the Statement of Financial Activities with the balance sheet reflecting the revalued amounts.
- ii Quoted stocks and shares are included in the balance sheet at mid-market price, ex-dividend.
- iii Other investment fixed assets are included at trustees' best estimate of market value.

1.7 Pensions contributions

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

1.8 Non-charitable funds held on trust

Most funds held on trust are charitable; a few health bodies, however, hold non-charitable funds which mostly relate to clinical research projects. Accounts are prepared for these funds on a similar format to charitable funds and they have been included in the overall total of funds held on trust. Of the total resources expended some £304,069,000 relates to charitable expenditure and £1,676,000 to non-charitable expenditure. Within the total fund balances as at 31 March 1997, some £1,451,456,000 is attributable to charitable funds and £2,260,000 to non-charitable funds.

1.9 Inclusion of Special Health Authorities

This account summarises the underlying accounts of the charitable and non-charitable funds held by health authorities, NHS Trusts and special trustees. The following special health authorities have funds which are included in this account:

- National Blood Authority
- NHS Supplies Authority
- United Kingdom Transplant Support Service Authority
- Ashworth Special Hospital Authority
- Broadmoor Special Hospital Authority
- Rampton Special Hospital Authority

Funds held by the Health Education Authority are not, however, included.

Details of resources expended	2	Unrestricted	Restricted	Endowment	Total
		Funds	Funds	Funds	Funds
		£000	£000	£000	£000
<i>2.1 Grants payable:</i>					
Patients welfare and amenities		11,071	14,064	30	25,165
Staff welfare and amenities		8,615	5,554	9	14,178
Research		27,767	16,019	-	43,786
Contributions to NHS		52,600	22,426	20	75,046
Miscellaneous		7,269	3,093	50	10,412
		<u>107,322</u>	<u>61,156</u>	<u>109</u>	<u>168,587</u>
<i>2.2 Other:</i>					
Patients welfare and amenities		14,151	11,833	1	25,985
Staff welfare and amenities		7,874	7,072	22	14,968
Research		4,631	20,026	-	24,657
Contributions to NHS		10,379	4,625	-	15,004
Miscellaneous		24,722	11,656	1,533	37,911
		<u>61,757</u>	<u>55,212</u>	<u>1,556</u>	<u>118,525</u>
Total direct charitable expenditure (note 3.1)					<u>287,112</u>

Analysis of total resources expended	3	3.1	Direct	Fundraising	Management	Total
			Charitable	and	and	
			Expenditure	Publicity	Administration	
			£000	£000	£000	£000
Staff			6,152	1,096	2,637	9,885
Depreciation			648	-	45	693
Auditors' remuneration:						
Audit fees			-	-	692	692
Other fees			-	-	126	126
Indemnity insurance			-	-	34	34
Other			280,312	3,629	10,374	294,315
			<u>287,112</u>	<u>4,725</u>	<u>13,908</u>	<u>305,745</u>
<i>3.2 Analysis of staff costs</i>						
			Total			
			£000			
Salaries and wages			8,913			
Social security costs			677			
Other pension costs			295			
			<u>9,885</u>			

Average number of employees in the year: 558

3.3 Senior employees

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

	Number
£40,000 to £50,000	6
£50,001 to £60,000	3
£60,001 to £70,000	2

Changes in resources available for charity use	4	Unrestricted	Restricted	Endowment	Total
		Funds	Funds	Funds	Funds
		£000	£000	£000	£000
Net movement in funds for the year		82,070	29,083	2,121	113,274
Net movement in tangible fixed assets:					
for direct charitable use		(10,259)	(381)	24	(10,616)
for other purposes		(118)	(2)	-	(120)
Net movement in funds available for future activities		71,693	28,700	2,145	102,538

Fixed assets	5	Freehold	Other	Plant	Fixtures,	Total
		Land and Buildings	Interests in Land and Buildings	and Machinery	Fittings and Equipment	
		£000	£000	£000	£000	£000
Total Tangible Fixed Assets:						
Balance at 1 April 1996		46,756	2,680	-	4,278	53,714
Additions		1,446	-	37	284	1,767
Revaluations and indexation		10,249	165	-	-	10,414
Disposals		(566)	-	-	(2)	(568)
Balance at 31 March 1997		57,885	2,845	37	4,560	65,327
Accumulated Depreciation:						
Balance at 1 April 1996		23	-	-	36	59
Disposals		-	-	-	(2)	(2)
Charge for the year		823	-	1	55	879
Balance at 31 March 1997		846	-	1	89	936
Net Book Value at 31 March 1997		57,039	2,845	36	4,471	64,391
Net Book Value at 1 April 1996		46,733	2,680	-	4,242	53,655

Unrealised gains on tangible fixed assets	6	Unrestricted	Restricted	Endowment	Total
		Funds	Funds	Funds	Funds
		£000	£000	£000	£000
Unrealised gains at 1 April 1996		15,078	1,722	-	16,800
Deductions in respect of disposals		(7)	(195)	-	(202)
Gains on revaluations in year		9,115	284	1,015	10,414
Unrealised gains at 31 March 1997		24,186	1,811	1,015	27,012

Analysis of fixed asset investments	7	7.1 Fixed asset investments:	£000			
		Market value at 1 April 1996	1,174,958			
		Disposals at opening market value	(273,227)			
		Acquisitions at cost	277,743			
		Net gain on revaluation	72,895			
		Market value at 31 March 1997	<u>1,252,369</u>			
		Historic cost at 31 March 1997	883,506			
				Held in UK	Held outside UK	Total
				£000	£000	£000
		7.2 Market value at 31 March 1997:				
		Investment properties	240,274	-	240,274	
		Investments listed on Stock Exchange	796,251	39,569	835,820	
		Unlisted securities	22,663	96	22,759	
		Cash held as part of the investment portfolio	98,073	-	98,073	
		Investments in connected bodies	41	-	41	
		Other investments	55,395	7	55,402	
		Total market value of fixed asset investments	<u>1,212,697</u>	<u>39,672</u>	<u>1,252,369</u>	
<hr/>						
Analysis of debtors	8	8.1 Amounts falling due within one year:	£000			
		Amounts due from subsidiary and associated undertakings	301			
		Trade debtors	2,395			
		Prepayments	361			
		Accrued income	23,000			
		Other debtors	14,784			
		Total debtors falling due within one year	<u>40,841</u>			
				8.2 Amounts falling due over one year:		
				Amounts due from subsidiary and associated undertakings	16	
				Trade debtors	4	
				Accrued income	9	
				Other debtors	1,269	
				Total debtors falling due after more than one year	<u>1,298</u>	
				Total debtors	<u>42,139</u>	

Analysis of creditors	9	9.1 <i>Amounts falling due within one year:</i>	£000	
		Loans and overdrafts	1,589	
		Trade creditors	5,639	
		Amounts due to subsidiary and associated undertakings	3,082	
		Other creditors	35,603	
		Accruals	20,856	
		Deferred income	2,078	
		Total creditors falling due within one year	<u>68,847</u>	
		9.2 <i>Amounts falling due after more than one year:</i>		
		Loans and overdrafts	354	
		Trade creditors	5	
		Other creditors	20	
		Accruals	1,961	
		Total creditors falling due after more than one year	<u>2,340</u>	
		Total creditors	<u>71,187</u>	

Contingent liabilities and gains **10** Contingent liabilities totalling £943,000 have not been accrued in the accounts. These mostly relate to grants which trustees expect to pay only if grant conditions are met.

Contingent gains amount to £228,000 and relate mainly to legacies where the precise amount and timing of the receipt is unknown.

Commitments	11	<i>Trustees have the following commitments:</i>	£000
		Charitable projects	18,877
		Capital	16,991
		Other	2,455
			<u>38,323</u>

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

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

1. In this direction, unless the context otherwise requires –
 - “the Act” means the National Health Service Act 1977;
 - “the Authorities” refers to all Health Authorities, Special Health Authorities, NHS Trusts, all Special Trustees appointed in pursuance of section 29(1) of the National Health Service Reorganisation Act 1973 and section 95(1) of the National Health Service Act 1977 (as amended) and to any trustees for an NHS Trust appointed in pursuance of section 11 of the National Health Service and Community Care Act 1990.
2. The summarised account of the Authorities’ funds held on trust required by section 98(4) of the Act to be prepared by the Secretary of State shall, in respect of the financial year ended 31 March 1997 and subsequent financial years, be as set out in the following paragraphs and Schedule.
3. The summarised account shall comprise:
 - (a) a foreword;
 - (b) a statement of financial activities;
 - (c) a balance sheet;
 - (d) such notes as may be necessary for the purposes referred to in paragraph 4 below.
4. The summarised account shall present fairly the financial activities for the year and the state of affairs as at the end of the financial year and separately show the charitable and non-charitable funds held on trust. Subject to this requirement the summarised account shall also, without limiting the information given, meet:
 - (a) the accounting and disclosure requirements of the Companies Act;
 - (b) generally accepted accounting practice in the United Kingdom including accounting standards issued or adopted by the Accounting Standards Board;
 - (c) all relevant guidance given by the Charity Commission;
 - (d) any disclosure and accounting requirements which the Treasury may issue from time to time;insofar as these are appropriate to the Authorities’ funds held on trust and are in force for the financial year for which the summarised account is to be prepared.
5. This accounts direction shall be reproduced as an appendix to the published summarised account.

Jamie Mortimer
Treasury Officer of Accounts

21 February 1997

Schedule

Foreword

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

Statement of Financial Activities and Balance Sheet

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

Notes to the Account

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

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

Application of the Requirements of the Companies Act and Accounting Standards

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

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

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

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

Other

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

Ashworth Special Hospital Authority

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

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

In preparing the accounts the Secretary of State is required to:

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

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

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

I certify that I have audited the financial statements on pages 77 to 87 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 80 to 83.

Respective responsibilities of Accounting Officer and Auditors

As described on page 75 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Ashworth Special Hospital Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000
Income		
Advances from the Department of Health		45,135
Other		<u>667</u>
		<u>45,802</u>
Expenditure		
Operating Costs	2,3	<u>(45,239)</u>
Operating surplus		563
Loss on disposal of fixed assets	4.2	<u>(26)</u>
Surplus for the year		<u>537</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

		£000
Surplus for the year		537
Unrealised surplus on fixed asset revaluation/indexation	15	<u>2,336</u>
Total recognised gains for the financial year		<u>2,873</u>

The notes at pages 80 to 87 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	1 April 1996 £000
Fixed assets	4	67,634	62,452
Current assets			
Stocks		76	69
Debtors: amounts falling due within one year	5	824	716
Cash at bank and in hand		4	-
		<u>904</u>	<u>785</u>
Current liabilities			
Creditors: amounts falling due within one year	6	(3,392)	(3,459)
Bank overdraft		-	(117)
		<u>(3,392)</u>	<u>(3,576)</u>
Net current liabilities		<u>(2,488)</u>	<u>(2,791)</u>
Total assets less current liabilities		<u>65,146</u>	<u>59,661</u>
Provisions for liabilities and charges	7	(3,457)	(3,670)
Total net assets		<u>61,689</u>	<u>55,991</u>
Financed by:			
Capital account	8	64,920	62,095
Revaluation reserve	8	2,336	-
Income and expenditure reserve		(5,567)	(6,104)
		<u>61,689</u>	<u>55,991</u>

The notes at pages 80 to 87 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000
Net cash outflow from operating activities	9	(210)
Capital expenditure		
Payments to acquire tangible fixed assets		(4,522)
Receipts from the sale of tangible fixed assets		<u>119</u>
Net cash outflow before financing		<u>(4,613)</u>
Financing		
Capital funding		<u>4,734</u>
Net cash inflow from financing		<u>4,734</u>
Increase in cash	10	<u>121</u>

The notes at pages 80 to 87 form part of this account.

Notes to the Accounts

Accounting policies

1a. Accounting conventions

These accounts have been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with the standard accounting practice for the NHS approved by the Secretary of State and accounts directions issued by the Treasury. This is the first year Ashworth has produced separate accounts, previously it had formed part of the Special Hospitals Service Authority. As a consequence the assets and liabilities appropriate to Ashworth, including an opening balance on the income and expenditure account, were transferred from the old authority. There are no comparatives, except for the Balance Sheet, and the cash flow statement shows the movement in cash in the period 1 April 1996 to 31 March 1997.

b. Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1996-97 was 6%. A capital charge adjustment is made to the interest charge at year end. This is the difference between the actual capital charge and the estimated (and paid) capital charge.

i. Capitalisation

All assets falling into the following categories are capitalised:

intangible assets which can be valued, are capable of being used in an Authority's activities for more than one year and have a cost equal to or greater than £5,000;

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

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

ii. Valuation

Intangible fixed assets are valued at historical cost. Tangible fixed assets are valued at current cost as follows:

Land and buildings

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

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

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

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

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

Land and Buildings assets held by the Authority were revalued by the District Valuer at 1 April 1996.

Equipment

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

Assets in the course of construction

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

iii. Depreciation and amortisation

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

- freehold land, assets in the course of construction and land and buildings surplus to requirements are not depreciated;
- buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer;
- leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost over the estimated life of the asset using the following standard lives:

	Years
medical equipment and engineering plant and equipment	5 to 15
furniture	10
mainframe information technology installations	8
soft furnishings	7
office and information technology equipment	5
vehicles	7
set-up costs in new buildings	10

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

c. Stocks and work-in-progress

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

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

d. Research and development

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

e. Losses and special payments

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

f. Clinical negligence

The Authority accrues for the best estimate of its expected share of future payouts for certain or probable clinical negligence contingent liabilities which can be reasonably estimated and discloses its expected share of all other potential payments.

g. Pension costs

The Authority participates in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No.300). Under these Regulations the Authority is required to pay an employer's contribution, currently 4% of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

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

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

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society. Under the arrangement the Authority can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

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

Operating expenses	2	£000
Non-executive members' remuneration		35
Other salaries and wages		32,411
Supplies and Services:		
- clinical		128
- general		953
Establishment costs		803
Transport costs		59
Premises and fixed plant costs		2,358
Provision for Bad Debt		22
Capital: Depreciation		1,937
Capital charges interest		3,615
Audit fee		40
Recharges from NHS bodies		688
Miscellaneous		2,190
		<u>45,239</u>

Operating expenses include £79,474 for other operating lease rentals.

Authority members' remuneration

Non-executive members' remuneration	35
Executive members' remuneration:	
- Basic Salaries	407
- Benefits	34
- Pension Contributions	16
	<u>492</u>

	Chairman	Chief Executive	Highest paid Director
	£000	£000	£000
Basic salaries	17	78	95
Benefits	-	3	5
Pension contributions	-	3	4
	<u>17</u>	<u>84</u>	<u>104</u>

In 1996-97 the office of Chief Executive was held by two members, the remuneration attributable to the Acting Chief Executive is £11,000 for the period 8 February to 31 March.

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

Range £	Number
Up to 5,000	4
10,001 to 15,000	1
15,001 to 20,000	1
40,001 to 45,000	1
50,001 to 55,000	2
55,001 to 60,000	2
70,001 to 75,000	1
100,001 to 105,000	1

Executive members' remuneration and staff costs

	£000
Salaries and wages	29,548
Social security costs	2,290
Other pension costs	86
Agency staff	451
	<u>32,375</u>

The average number of employees was 1,377.

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

Range £	Number
40,000 to 50,000	4
50,001 to 60,000	5
60,001 to 70,000	7
70,001 to 80,000	4
100,001 to 110,000	1

**Public Sector
Payment Policy –
Measure of
compliance**

3

The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 86%, representing 88% by value, were paid within the 30 days target.

Tangible fixed assets	4	4.1	Freehold	Buildings,	Assets
			Land	installations & fittings	under construction
			£000	£000	£000
Cost or valuation as at 1 April 1996			4,391	55,999	1,116
Indexation			86	2,187	44
Additions – purchased			–	–	4,630
Transfers			–	4,196	(4,196)
Depreciation provided during the year			–	(1,720)	–
Disposals			(20)	(60)	–
Net book value as at 31 March 1997			<u>4,457</u>	<u>60,602</u>	<u>1,594</u>

			Equipment
			£000
Gross replacement cost at 1 April 1996			2,200
Indexation			57
Additions – purchased			270
Disposals			(173)
Gross replacement cost at 31 March 1997			<u>2,354</u>

Depreciation as at 1 April 1996			1,254
Indexation			33
Provided during the year			243
Disposals			(157)
Depreciation as at 31 March 1997			<u>1,373</u>

Net book value as at 1 April 1996			946
Net book value as at 31 March 1997			981

All tangible fixed assets were purchased.

4.2 *Loss on disposal of fixed assets is made up as follows:*

			£000
Profit on disposal of land and buildings			22
(Loss) on disposal of plant and machinery			(48)
			<u>(26)</u>

Debtors	5		£000
		National Health Service debtors	67
		Other debtors	461
		Provision for irrecoverable debts	(18)
		Prepayments and accrued income	314
			<u>824</u>

Creditors:	6		£000
Amounts falling due within one year		National Health Service creditors	144
		Non-NHS trade creditors – revenue	532
		Non-NHS trade creditors – capital	378
		Tax and social security	981
		Patients' money	135
		Other creditors	403
		Accruals and deferred income	819
			<u>3,392</u>

Provisions for liabilities and charges	7	Pensions relating to staff	Other	Total
		£000	£000	£000
		At 1 April 1996	398	3,670
		Arising during the year	374	460
		Utilised during the year	(21)	(673)
		<u>At 31 March 1997</u>	<u>751</u>	<u>3,457</u>

Capital account and reserves	8.1 Capital account	£000
	At 1 April 1996	62,095
	Additions	4,879
	Depreciation	(1,938)
	Disposals	(116)
	<u>At 31 March 1997</u>	<u>64,920</u>

	8.2 Revaluation reserve	£000
	At 1 April 1996	-
	Revaluation of fixed assets	2,341
	Disposals	(5)
	<u>At 31 March 1997</u>	<u>2,336</u>

	8.3 Income and expenditure reserve	£000
	At 1 April 1996	(6,104)
	Transfer from income and expenditure account	537
	<u>At 31 March 1997</u>	<u>(5,567)</u>

Reconciliation of operating surplus to net cash outflow from operating activities	9		£000
		Operating surplus	563
		(Increase) in stocks	(7)
		(Increase) in debtors	(108)
		(Decrease) in creditors and other provisions	(658)
		Net cash (outflow) from operating activities	<u><u>(210)</u></u>

Analysis of change in cash	10		At 1 April	Cash	At 31 March
			1996	flow	1997
			£000	£000	£000
		Cash at bank and in hand	-	4	4
		Overdraft	(117)	117	-
			<u>(117)</u>	<u>121</u>	<u>4</u>

Capital commitments **11** Capital commitments contracts at balance sheet date were £4,534,315.

Contingent liabilities **12** At 31 March 1997, Disability Living Allowance claims with a potential value of £400,000 and Industrial Tribunal (T.U.P.E.) claims with a potential value of £158,000 had been made against the Authority. These claims are disputed and, until they are resolved, the Authority's financial liability, if any, cannot be determined. The estimated future liability of potential early retirement costs is estimated to be £992,194. No provision has been made in the accounts for these items.

At 31 March 1997, no clinical negligence claims had been made against the Authority. Other clinical litigation claims could arise in the future due to known incidents. The expenditure which may arise from such incidents cannot be determined and no provision has been made for them.

The summarised accounts direction is at page 235.

Broadmoor Special Hospital Authority

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

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

In preparing the accounts the Secretary of State is required to:

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

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

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

I certify that I have audited the financial statements on pages 93 to 103 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 96 to 99.

Respective responsibilities of Accounting Officer and Auditors

As described on page 91 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Broadmoor Special Hospital Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000
Income		
Advances from the Department of Health		40,294
Other		<u>2,050</u>
		<u>42,344</u>
Expenditure		
Operating Costs	2,3	<u>(42,334)</u>
Operating surplus		<u>10</u>
Surplus for the year		<u>10</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	£000
Surplus for the year	10
Unrealised surplus on fixed asset revaluation/indexation	<u>2,066</u>
Total recognised gains for the financial year	<u>2,076</u>

The notes at pages 96 to 103 form part of this account.

Balance Sheet as at 31 March 1997

	£000	1 April 1996 £000
Fixed assets	59,450	56,271
Current assets		
Stocks	398	162
Debtors: Amounts falling due within one year	878	465
Cash at bank and in hand	59	109
	<u>1,335</u>	<u>736</u>
Current liabilities		
Creditors: Amounts falling due within one year	1,886	2,042
Bank overdraft	104	221
	<u>1,990</u>	<u>2,263</u>
Net current liabilities	<u>(655)</u>	<u>(1,527)</u>
Total assets less current liabilities	<u>58,795</u>	<u>54,744</u>
Provisions for liabilities and charges	(1,379)	(1,066)
Total net assets	<u>57,416</u>	<u>53,678</u>
Financed by:		
Capital Account	57,149	55,978
Revaluation reserve	2,066	-
Income and expenditure reserve	(1,799)	(2,300)
	<u>57,416</u>	<u>53,678</u>

The notes at pages 96 to 103 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000
Net cash outflow from operating activities	9	(424)
Capital expenditure		
Payments to acquire tangible fixed assets		<u>(3,150)</u>
Net cash outflow before financing		<u>(3,574)</u>
Financing		
Capital Funding		<u>3,641</u>
Net cash inflow from financing		<u>3,641</u>
Increase in cash	10	<u>67</u>

The notes at pages 96 to 103 form part of this account.

Notes to the Accounts

Accounting policies

1a. Accounting conventions

These accounts have been prepared under the historical cost convention, modified to reflect the changes in the value of fixed assets, and in accordance with the standard accounting practice for the NHS approved by the Secretary of State and accounts directions issued by the Treasury. This is the first year Broadmoor has produced separate accounts, previously it had formed part of the Special Hospitals Service Authority. As a consequence the assets and liabilities appropriate to Broadmoor, including an opening balance on the income and expenditure account, were transferred from the old authority. There are no comparatives, except for the Balance Sheet, and the cash flow statement shows the movement in cash in the period 1 April 1996 to 31 March 1997.

b. Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1996-97 was 6%. A capital charge adjustment is made to the interest charge at year end. This is the difference between the actual capital charge and the estimated (and paid) capital charge.

i. Capitalisation

All assets falling into the following categories are capitalised:

intangible assets which can be valued, are capable of being used in an Authority's activities for more than one year and have a cost equal to or greater than £5,000;

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

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

ii. Valuation

Intangible fixed assets are valued at historical cost. Tangible fixed assets are valued at current cost as follows:

Land and buildings

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

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

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

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

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

Land & Buildings assets held by the Authority were revalued by the District Valuer at 1 April 1996.

Equipment

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

Assets in the course of construction

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

iii. Depreciation and amortisation

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

- freehold land, assets in the course of construction and land and buildings surplus to requirements are not depreciated;
- buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer;
- leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost over the estimated life of the asset using the following standard lives:

	Years
medical equipment and engineering plant and equipment	5 to 15
furniture	10
mainframe information technology installations	8
soft furnishings	7
office and information technology equipment	5
vehicles	7
set-up costs in new buildings	10

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

c. Stocks and work-in-progress

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

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

d. Research and development

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

e. Losses and special payments

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

f. Clinical negligence

The Authority accrues for the best estimate of its expected share of future payouts for certain or probable clinical negligence contingent liabilities which can be reasonably estimated and discloses its expected share of all other potential payments.

g. Pension costs

The Authority participates in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No.300). Under these Regulations the Authority is required to pay an employer's contribution, currently 4% of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

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

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

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society. Under the arrangement the Authority can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

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

Operating expenses	2	£000
Non-executive members' remuneration		36
Other salaries and wages		28,202
Supplies and services:		
- clinical		792
- general		766
Establishment costs		961
Transport costs		42
Premises and fixed plant costs		3,461
Capital: Depreciation		1,979
Capital charges interest		3,046
Bad Debts		13
Audit fee		35
Other Auditor's remuneration		16
Recharges from other NHS bodies		75
Miscellaneous		2,910
		<u>42,334</u>

Annual commitments under non-cancellable operating leases, between 1 and 5 years, are £14,000.

Authority members' remuneration:

Non-executive members' remuneration	36
Executive members' remuneration:	
- Basic Salaries	291
- Benefits	11
- Performance related bonuses	3
- Pension contributions	10
	<u>351</u>

	Chief Chairman	Chief Executive
	£000	£000
Basic salaries	17	67
Benefits	-	3
Performance related bonuses	-	1
Pension contributions	-	3
	<u>17</u>	<u>74</u>

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

Range £	Number
Up to 5,000	5
15,001 to 20,000	1
20,001 to 25,000	1
30,001 to 35,000	1
50,001 to 55,000	2
55,001 to 60,000	1

Executive members' remuneration and staff costs:

	£000
Salaries and wages	25,300
Social security costs	2,031
Other pension costs	734
Agency staff	137
	<u>28,202</u>

The average number of employees was 1,173.

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

Range £	Number
40,001 to 50,000	8
50,001 to 60,000	8
60,001 to 70,000	3
70,001 to 80,000	2
80,001 to 90,000	1

**Public Sector
Payment Policy –
Measure of
compliance**

- 3 The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 81%, representing 73% by value, were paid within the 30 days target.

Tangible fixed assets	4		Buildings	Assets
		Freehold	installations	under
		Land	& fittings	construction
		£000	£000	£000
		Cost or valuation as at 1 April 1996	6,527	48,649
		Indexation	128	1,901
		Additions – purchased	–	2,324
		Transfers	–	724
		Depreciation provided during the year	–	(1,877)
		Net book value as at 31 March 1997	<u>6,655</u>	<u>51,721</u>
				Equipment
				£000
		Gross replacement cost as at 1 April 1996		559
		Indexation		16
		Additions – purchased		179
		Transfers		56
		Gross replacement cost as at 31 March 1997		<u>810</u>
		Depreciation as at 1 April 1996		217
		Indexation		6
		Depreciation provided during the year		102
		Depreciation as at 31 March 1997		<u>325</u>
		Net book value as at 1 April 1996		342
		Net book value as at 31 March 1997		485
		All tangible fixed assets were purchased		
<hr/>				
Debtors	5			£000
		National Health Service debtors		129
		Other debtors		420
		Prepayments and accrued income		329
				<u>878</u>
<hr/>				
Creditors:	6			£000
Amounts falling due within one year		National Health Service creditors		304
		Non-NHS trade creditors – revenue		881
		Non-NHS trade creditors – capital		235
		Tax and social security		36
		Patients' money		152
		Pensions – relating to staff		78
		Payments received on account		32
		Accruals and deferred income		168
				<u>1,886</u>

Provision for liabilities and charges	7		Pensions relating to staff	Other	Total
			£000	£000	£000
		At 1 April 1996	342	724	1066
		Arising during the year	249	243	492
		Utilised during the year	(150)	(29)	(179)
		<u>441</u>	<u>938</u>	<u>1,379</u>	
<hr/>					
Capital account and reserves	8	8.1 Capital account			£000
		At 1 April 1996			55,978
		Additions			3,150
		Depreciation			(1,979)
		At 31 March 1997			<u>57,149</u>
		8.2 Revaluation reserve			£000
		At 1 April 1996			-
		Revaluation of fixed assets			2,066
		At 31 March 1997			<u>2,066</u>
		8.3 Income and expenditure reserve			£000
		At 1 April 1996			(2,300)
		Transfer from income and expenditure account			10
		Other			491
At 31 March 1997			<u>(1,799)</u>		
<hr/>					
Reconciliation of operating surplus to net cash inflow from operating activities	9				£000
		Operating surplus			10
		(Increase) in stocks			(236)
		(Increase) in debtors			(413)
		Increase in creditors and other provisions			215
		Net cash (outflow) from operating activities			<u>(424)</u>
<hr/>					
Analysis of change in cash during the year	10		At 1 April 1996	Cash flow	At 31 March 1997
			£000	£000	£000
		Cash at bank and in hand	109	(50)	59
		Overdraft	(221)	117	(104)
			<u>(112)</u>	<u>67</u>	<u>(45)</u>

**Capital
commitments**

11 Capital commitments contracts at balance sheet date were £11,000.

**Contingent
liabilities**

12 At 31 March 1997, an industrial tribunal claim with a potential value of £3,000 had been made against the Authority. This claim is disputed and until it is resolved the Authority's financial liability, if any, cannot be determined. No provision has been made in the 1996-97 accounts for this item.

The summarised accounts direction is at page 235.

Dental Practice Board

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 109 to 117 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 112 and 113.

Respective responsibilities of Accounting Officer and Auditors

As described on page 107 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Dental Practice Board at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000	1995-96 £000
Income			
Advances from the Department of Health and the Welsh Office	2	21,109	20,467
Other	3	148	144
Transfer from Reserves	11	873	959
		<u>22,130</u>	<u>21,570</u>
Expenditure			
Operating expenses	4	20,492	20,990
Depreciation	6	873	959
		<u>21,365</u>	<u>21,949</u>
Surplus/(deficit) for the financial year		<u>765</u>	<u>(379)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

		£000	1995-96 £000
Surplus/(deficit) for the financial year		765	(379)
Unrealised surplus/(deficit) on the revaluation of Fixed Assets	11	157	(273)
Total recognised gains/(losses)		<u>922</u>	<u>(652)</u>

The notes at pages 112 to 117 form part of this account.

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed assets	6	4,902	5,023
Current assets			
Debtors	7	2,127	1,648
Cash and bank balances	10	5	4
		<u>2,132</u>	<u>1,652</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(841)	(1,225)
Net current assets		<u>1,291</u>	<u>427</u>
Total assets less current liabilities		<u>6,193</u>	<u>5,450</u>
Financed by			
Deferred Government Grant	11	5,197	5,302
Income and Expenditure Reserve	11	1,280	515
Revaluation Reserve	11	(284)	(367)
		<u>6,193</u>	<u>5,450</u>

The notes at pages 112 to 117 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	1995-96 £000	1996-97 £000
Net cash (outflow) from operating activities	9	<u>(16)</u>	<u>(2)</u>
Capital expenditure			
Payments to acquire tangible fixed assets		(463)	(236)
Receipts from sale of fixed assets		17	5
Net cash outflow before financing		<u>(462)</u>	<u>(233)</u>
Financing			
Receipts of Government Grants for fixed assets		<u>463</u>	<u>236</u>
Increase in cash	10	<u>1</u>	<u>3</u>

The notes at pages 112 to 117 form part of this account.

Notes to the Account

Accounting policies

1.1 Accounting convention

This account has been prepared under the historical cost convention in accordance with accounting standards and policies for the NHS approved by the Secretary of State. Where relevant and applicable, these take cognisance of the accounting standards issued or adopted by the Accounting Standards Board and accounts directions issued by the Treasury.

1.2 Income

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

1.3 Fixed assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals; the date of the most recent valuation was 1 April 1995. Between valuations the appropriate NHS indices are applied to revalue the assets;
- ii equipment is valued each year by reference to the appropriate NHS indices.

c. Depreciation

Assets are depreciated over their estimated lives by using the standard lives specified in the Capital Charges Manual, as follows:

	Years
Buildings	50
Furniture, Fixtures, Fittings, Plant and Machinery	10
Vehicles	7
Office Equipment and Computers	5

1.4 Stock

No figure is included in the account as the amounts involved are not material.

1.5 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings.

1.6 Pension contributions

The cost of employer pension contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.7 Auditor's remuneration

Audit fees disclosed in Note 4 are for the external audit of the Authority.

Advances	2	1995-96	
		£000	£000
	(a) Department of Health Class XI, Vote 1 Revenue	20,054	19,444
	(b) Welsh Office Class XIV, Vote 4 Revenue	1,055	1,023
		<u>21,109</u>	<u>20,467</u>

Other income	3	1995-96	
		£000	£000
	Isle of Man Health Service Board	45	48
	Overseas estimates	-	2
	Sun Alliance Dental Reports	-	1
	Certification charges	37	43
	Dental Data Services Receipts	19	2
	Sundry Receipts	23	22
	Dental Vocational Training Authority	14	13
	DPB Centre	10	13
		<u>148</u>	<u>144</u>

Operating expenses	4	1995-96	
		£000	£000
	(a) Staff costs		
	Board members' fees	55	48
	Salaries	9,235	9,175
	Social security costs	701	680
	Other pension costs	329	319
	Redundancy payments	1,345	1,292
		<u>11,665</u>	<u>11,514</u>

The average number of employees during the year was 578. (1995-96 – 617).

The Chairman's emoluments, including taxable benefits but excluding employer's pension contributions, were £36,006. (1995-96 – £36,360).

The Chief Executive, the highest paid director, received total remuneration, including the employer's contribution to the NHS Superannuation Scheme of £65,764. (1995-96 – £61,379)

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

Range £	Number	1995-96 Number
Up to 5,000	6	6
35,001 to 40,000	1	1
60,001 to 65,000	–	1
65,001 to 70,000	1	–

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

Range £	Number	1995-96 Number
40,001 to 45,000	23	24
45,001 to 50,000	16	9
50,001 to 55,000	7	7
55,001 to 60,000	1	1
60,001 to 65,000	1	–

	£000	1995-96 £000
(b) Other operating expenses		
Bureau keying	1,151	1,229
Computer staff contractors	3,377	3,370
Consultants	247	178
Training	118	85
Hire and leasing	139	219
Heat, light and power	136	157
Rent and rates	305	440
Furniture and equipment	179	451
Maintenance of equipment and premises	776	1,145
Postage, stationary and telephone	1,168	1,066
Transport, travel and subsistence	300	293
Appointed auditor's remuneration	123	105
Other operating expenses	808	738
	<u>8,827</u>	<u>9,476</u>
Total revenue expenditure	<u>20,492</u>	<u>20,990</u>

**Public Sector
Payment Policy –
Measure of
compliance**

5

The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. All bills were paid within the 30 day target. (1995-96: All bills were paid within the 30 day target).

Fixed assets	6	Land	Buildings	Furniture Fixtures and Fittings	Computer and Office Equipment	Plant and Machinery	Vehicles	Total
		£000	£000	£000	£000	£000	£000	£000
		Adjusted gross replacement cost at 31 March 1996*						
		638	1,862	440	3,750	828	545	8,063
		-	-	7	133	-	251	391
		12	73	11	98	22	14	230
		-	-	-	(132)	-	(72)	(204)
		Gross replacement cost at 31 March 1997						
		650	1,935	458	3,849	850	738	8,480
		Adjusted accumulated depreciation as at 31 March 1996 *						
		-	49	99	2,123	379	159	2,809
		-	51	48	654	95	99	947
		-	-	-	(132)	-	(46)	(178)
		Accumulated depreciation as at 31 March 1997						
		-	100	147	2,645	474	212	3,578
		Net book value at 31 March 1997						
		650	1,835	311	1,204	376	526	4,902
		Adjusted net book value at 31 March 1996 *						
		638	1,813	341	1,627	449	386	5,254

* See Note 14.

Debtors	7	31 March 1996		
		£000	£000	
		Sundry Debtors	534	350
		Prepayments	1,593	1,298
			<u>2,127</u>	<u>1,648</u>

Creditors: Amounts falling due within one year	8	31 March 1996		
		£000	£000	
		Sundry Creditors	260	666
		Accruals	581	559
			<u>841</u>	<u>1,225</u>

Reconciliation of operating surplus/ (deficit) to net cash (outflow) from operating activities	9	1995-96	
		£000	£000
Operating surplus/(deficit)		765	(379)
Depreciation		873	959
(Increase) in revenue debtors		(478)	(370)
(Decrease)/Increase in creditors		(312)	437
Transfer from reserves		(873)	(959)
Adjustment		-	310
Loss on sale of fixed assets		9	-
Net Cash (Outflow) from Operating Activities		<u>(16)</u>	<u>(2)</u>

Analysis of changes in cash	10	At 31	Change	At 31
		March	during	March
		1996	the year	1997
		£000	£000	£000
Cash at bank and in hand		4	1	5
		<u>4</u>	<u>1</u>	<u>5</u>

Reserves	11	Deferred	Income and	Revaluation	Total
		Government	Expenditure	Reserve	
		Grant	Reserve		
		£000	£000	£000	£000
Balance brought forward		5,302	515	(367)	5,450
Adjustment (see Note 14)		216	-	15	231
Adjusted balance brought forward		5,518	515	(352)	5,681
Indexation and Revaluation of Fixed Assets		-	-	157	157
1996-97 Capital Grant		463	-	-	463
Transfer to Income and Expenditure Account		(784)	-	(89)	(873)
Surplus for the Year		-	765	-	765
		<u>5,197</u>	<u>1,280</u>	<u>(284)</u>	<u>6,193</u>

Losses 12 There were no losses reported.

Contingent liability 13 As at 31 March 1997, three industrial injury claims are outstanding against the Board in respect of alleged musculo skeletal disorders. These claims are disputed and, until they are resolved, the Board's liability, if any, cannot be determined. As at 31 March 1997 it is not practicable to make an estimate of the financial effect of these contingencies. No provision has been made in the 1996-97 accounts for these items.

**Prior year
adjustment**

- 14** A prior year adjustment has been made to the account for a decision to change the basis of accounting for furniture to capitalise recent and future significant purchases.

This has resulted in adjustments to the brought forward balances for net book value, and accumulated depreciation as at 1 April 1996. In addition, the necessary adjustments to deferred government grants and the revaluation reserve have been made.

The summarised accounts direction is at page 235.

Dental Vocational Training Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 123 and 124 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 124.

Respective responsibilities of Accounting Officer and Auditors

As described on page 121 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements properly present the receipts and payments of the Dental Vocational Training Authority for the year ended 31 March 1997 and its balances as at that date and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Receipts and Payments Account for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Receipts			
Advances from the Department of Health Class XI Vote 1		67	65
Payments			
Staff	2	45	42
Administration costs		14	18
Appeal body	3	2	2
		<u>61</u>	<u>62</u>
Excess of receipts over payments		<u>6</u>	<u>3</u>

Statement of Balances as at 31 March 1997

	Balances at 31 March 1997	Movement	Balances at 31 March 1996
	£000	£000	£000
Cash and bank balances	<u>12</u>	<u>6</u>	<u>6</u>

Alan Langlands
Accounting Officer

30 November 1997

Notes to the Accounts

- | | | |
|----------------------------|----------|---|
| Accounting policies | 1 | <p>(a) This account has been prepared in the form directed by Treasury in accordance with Section 98(4) of the National Health Services Act 1977.</p> <p>(b) The DVTA account for income and expenditure on a cash basis. Any unspent income is carried forward to the next year.</p> |
| Staff costs | 2 | <p>The DVTA consists of a Chairman, a Secretary/Member and up to 40 non officer Members. Staff costs include expenses paid to DVTA members, £28,928, and the salary of one member of staff, £16,055.</p> |
| Appeal body | 3 | <p>The DVTA administers the expenses for the Appeal body on the authorisation of the Appeal body secretariat.</p> |

The summarised accounts direction is at page 235.

Family Health Services Appeal Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 129 to 136 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 132.

Respective responsibilities of Accounting Officer and Auditors

As described on page 127 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net liabilities of the Family Health Services Appeal Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

	Notes	1995-96	1996-97
		£000	£000
Income			
Department of Health funding	2	1,364	1,219
Miscellaneous income		79	11
		<u>1,443</u>	<u>1,230</u>
Expenditure			
Staff costs	3	678	633
Other operating costs	4	818	591
		<u>1,496</u>	<u>1,224</u>
(Deficit)/surplus for the financial year		<u>(53)</u>	<u>6</u>

All operations are continuing.

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

The notes at pages 132 to 136 form part of this account.

Balance Sheet as at 31 March 1997

		31 March 1996	
	Notes	£000	£000
Fixed assets	6	2	4
Current assets			
Debtors	7	45	48
Cash at bank and in hand	13	121	11
		<u>166</u>	<u>59</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(76)	(72)
Total assets less current liabilities		92	(9)
Provision for liabilities and charges	9	(156)	-
Total net liabilities		<u>(64)</u>	<u>(9)</u>
Financed by			
Capital account	10	2	4
Income and expenditure reserve	11	(66)	(13)
		<u>(64)</u>	<u>(9)</u>

The notes at pages 132 to 136 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	1995-96 £000	1996-97 £000
Operating activities			
Net cash inflow from operating activities	12	<u>110</u>	<u>11</u>
Increase in cash	13	<u>110</u>	<u>11</u>

There were no investing or financing activities.

The notes at pages 132 to 136 form part of this account.

Notes to the Account

Accounting policies

1.1 Accounting convention

This account has been prepared under the historical cost convention in accordance with accounting standards and policies for the NHS, approved by the Secretary of State. Where relevant and applicable, these take cognisance of the accounting standards issued or adopted by the Accounting Standards Board and accounts directions issued by the Treasury.

1.2 Income

The main source of funding for the FHS Appeal Authority is income allocations from the Department of Health within an approved cash limit. Since 1 April 1996, these allocations have been recorded on an accruals basis, although in practice this has made no difference to the amounts recorded.

1.3 Fixed assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Equipment held for operational use is valued at depreciated replacement cost.

c. Depreciation

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

1.4 Pension contributions

The cost of employer pension contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.5 Auditor's remuneration

Audit fees disclosed in Note 4 are for the external audit of the Authority.

Department of Health funding

2 This composes advances from Class XI, Vote 1, subhead A2.

Staff costs 3

	£000	1995-96 £000
Authority members' remuneration:		
Non-executive members' remuneration	24	22
Executive members' remuneration:		
- Basic salaries	102	68
- Benefits	-	4
- Performance related bonuses	13	8
- Pension contributions	5	3
	<u>144</u>	<u>105</u>
 Executive members' remuneration and other staff costs:		
Salaries and wages	606	558
Social security costs	51	49
Other pension costs	21	18
Agency staff	-	8
	<u>678</u>	<u>633</u>

The average number of employees (excluding agency staff) during the year was 30. (1995-96 - 35).

The Chairman's emoluments (excluding employer's pension contributions) were £10,000 (1995-96 - £11,000).

The Chief Executive, the highest paid director, received total emoluments of £68,000, comprising £62,000 basic salary, £3,000 performance related bonuses and £3,000 employer's contribution to the NHS Superannuation Scheme.

Board members' remuneration fell within the following ranges:

Range £	Number	1995-96 Number
Up to 5,000	3	-
5,001 to 10,000	-	1
10,001 to 15,000	1	1
25,001 to 30,000	-	1
45,001 to 50,000	-	1
50,001 to 55,000	1	-
65,001 to 70,000	1	-

No other senior employees received remuneration in excess of £40,000.

Other operating costs	4	Note	1995-96	
			£000	£000
			24	22
Authority members' fees			153	218
Establishment expenses			122	63*
Premises and fixed plant			263	225*
External contractors			2	3
Depreciation			7	6
Appointed auditor's remuneration			156	-
Provision for early retirements		9	91	54
Miscellaneous			<u>818</u>	<u>591</u>

* Reclassified from 1995-96 account.

There were no hire or operating rentals expenses incurred by the Authority.

Public sector payment policy – measure of compliance	5
	The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. All relevant bills were paid within the 30 day target. (1995-96: 84.5 % of bills, representing 95.0% by value, were paid within the target).

Fixed assets	6	Equipment £000
		<u>14</u>
Gross replacement cost at 31 March 1996		14
Gross replacement cost at 31 March 1997		<u>10</u>
Accumulated depreciation at 31 March 1996		2
Provided during the year		<u>12</u>
Accumulated depreciation at 31 March 1997		4
Net book value at 31 March 1996		<u>2</u>
Net book value at 31 March 1997		

Debtors	7	31 March 1996	
		£000	£000
		13	38
Department of Health, health authorities, and NHS Trusts		5	5
Other debtors		27	5
Prepayments and accrued income		<u>45</u>	<u>48</u>

Creditors:	8		31 March	
Amounts falling due within one year			£000	1996
				£000
		Department of Health, health authorities, and NHS Trusts	9	1
		Pensions relating to former staff	6	-
		Other creditors	61	71
			<u>76</u>	<u>72</u>
<hr/>				
Provision for liabilities and charges	9	<i>Early Retirements</i>	£000	
		At 31 March 1996	-	
		Arising during the year	175	
		Utilised during the year	(19)	
		At 31 March 1997	<u>156</u>	
<hr/>				
Capital account	10		£000	
		At 31 March 1996	4	
		Depreciation	(2)	
		At 31 March 1997	<u>2</u>	
<hr/>				
Income and expenditure reserve	11		£000	
		Balance at 31 March 1996	(13)	
		Transfer from Income and Expenditure Account	(53)	
		Balance at 31 March 1997	<u>(66)</u>	
<hr/>				
Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities	12		1995-96	
			£000	£000
		Operating (deficit)/surplus	(53)	6
		Decrease/(increase) in net balances with the Department, health authorities and NHS Trusts	33	(41)
		Increase in debtors	(22)	(6)
		(Decrease)/increase in creditors	(4)	52
		Increase in provision for liabilities and charges	156	-
		Depreciation	2	3
		Other non-cash movements	(2)	(3)
		Net Cash Inflow from Operating Activities	<u>110</u>	<u>11</u>

Analysis of changes in cash	13	At 31 March 1996 £000	Cash flows £000	At 31 March 1997 £000
Cash at bank and in hand		11	110	121
		<u>11</u>	<u>110</u>	<u>121</u>

The summarised accounts direction is at page 235.

Mental Health Act Commission

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 141 to 145 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 143.

Respective responsibilities of Accounting Officer and Auditors

As described on page 139 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net liabilities of the Mental Health Act Commission at 31 March 1997 and its income, expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing operations

	Notes	£000
Income		
Advances from the Department of Health and Welsh Office	2	2,558
Other income		<u>9</u>
		<u>2,567</u>
Expenditure		
Commission members' fees and expenses	3	1,839
Administrative support staff costs	4	503
Other operating expenses	5	<u>293</u>
		<u>2,635</u>
(Deficit) for the year		<u><u>(68)</u></u>

The Commission had no recognised gains or losses other than the deficit for the year.

The notes at pages 143 to 145 form part of this account.

Balance Sheet as at 31 March 1997

	Notes	£000	1 April 1996 £000
Current assets			
Debtors	6	38	78
Cash in hand		8	8
Current liabilities			
Creditors: Amounts falling due within one year	7	<u>(190)</u>	<u>(162)</u>
Total assets less current liabilities		<u>(144)</u>	<u>(76)</u>
Financed by:			
Balance due from the Department of Health		<u>(144)</u>	<u>(76)</u>

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Note	£000
Net cash inflow from operating activities	8	<u>—</u>
Increase/(Decrease) in cash	9	<u>—</u>

The notes at pages 143 to 145 form part of this account.

Notes to the Account

Accounting policies

- 1.1 Accounting conventions**
This account has been prepared under the historical cost convention, in accordance with the accounting standards and policies for the NHS approved by the Secretary of State and accounts directions issued by Treasury. From 1996-97, the Commission's expenditure and balances are recorded on an accruals basis rather than a cash basis. Comparative figures are not available due to this change in accounting basis. Opening balances are disclosed.
- 1.2 Income**
The Department of Health make payments on behalf of the Commission within an approved cash limit; a recharge is made to the Welsh Office. These payments on the Commission's behalf are recorded as income in the Commission's accounts on a cash basis rather than an accruals basis.
- 1.3 Fixed assets**
The Commission does not have any fixed assets above the NHS capitalisation threshold of £5,000.
- 1.4 Leases**
Rentals under operating leases are charged on a straight-line basis under the terms of the lease.
- 1.5 Value added tax**
From 1 April 1996 expenditure is reported net of VAT.
- 1.6 Public sector payment policy**
The Department of Health pays all invoices on behalf of the Commission and therefore information on adherence to the Public Sector Payment Policy is not available.

Income

2		£000
	Advances from the Department of Health: (Class XI, Vote 1, Subhead: A2 (part))	2,493
	Advances from the Welsh Office: (Class XIV, Vote 4, Subhead A2 (part))	65
		<u>2,558</u>

Commission members

3		£000
	Members' fees	749
	Members' expenses	337
	Second opinion doctors' fees	657
	Second opinion doctors' expenses	96
		<u>1,839</u>

The Department of Health make a central payment to the Inland Revenue to discharge the tax liability of members of all Departmental committees, including those at the Mental Health Commission. They estimate that the amount paid on behalf of the Commission for 1996-97 was of the order of £180,000. This expenditure, and the related notional funding, are not included in the income and expenditure account of the Commission.

**Staff costs
and numbers**

4.1	<i>Administrative support staff costs</i>	£000
	Salaries	421
	Social security costs	81
	Agency costs	1
		503

4.2 *Average number of staff*

The average number of employees (excluding agency staff) in 1996-97 was 29.

4.3 *Members' remuneration*

Executive members of the Management Board are civil service staff seconded from the Department of Health. The total remuneration paid to executive members was £69,000.

The Chairman's emoluments, excluding employer's pension contributions, was £16,000.

The Chief Executive's total remuneration, including the employer's contribution to the Principal Civil Service Pension Scheme, was £45,000. He was the only employee who received in excess of £40,000.

**Other
operating
expenses**

5		£000
	Non-executive Management Board members	21
	Administration expenses	121
	Accommodation and office equipment	114
	Car hire	29
	Appointed auditor's remuneration	8
		293

Hire and operating lease rentals amounted to £2,000.

Debtors

6		£000
	Prepayments	26
	VAT recoverable	12
		38

Creditors:	7		£000
Amounts falling due within one year		Staff salaries	109
		Income tax and social security	21
		Other creditors	60
			<u>190</u>

Reconciliation of operating (deficit) to net cash inflow from operating activities	8		£000
		Operating (deficit)	(68)
		Decrease in debtors	40
		Increase in creditors	28
		Net cash inflow	<u>-</u>

Analysis of changes in cash	9	At 1 April 1996 £000	Cash Flows £000	At 31 March 1997 £000
		<u>8</u>	<u>-</u>	<u>8</u>

The summarised accounts direction is at page 235.

National Blood Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 151 to 161 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 154 to 156.

Respective responsibilities of Accounting Officer and Auditors

As described on page 149 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the National Blood Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

	Notes	1995-96 £000	1996-97 £000
Income			
Department of Health funding		12,430	8,245
Operating income		<u>188,240</u>	<u>177,205</u>
		<u>200,670</u>	<u>185,450</u>
Expenditure			
Staff costs	2	89,279	82,721
Other operating costs	3	<u>112,325</u>	<u>105,153</u>
		<u>201,604</u>	<u>187,874</u>
(Deficit) for the financial year		<u>(934)</u>	<u>(2,424)</u>

All operations are continuing.

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

		1995-96 £000	1996-97 £000
(Deficit) for the financial year		(934)	(2,424)
Unrealised surplus on the revaluation of fixed assets	10	<u>4,717</u>	<u>10,454</u>
Total recognised gains		<u>3,783</u>	<u>8,030</u>

The notes at pages 154 to 161 form part of this account.

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed assets	5	151,967	144,751
Current assets			
Stocks	6	27,789	31,435
Debtors	7	21,035	16,544
Cash and bank balances	12	451	6,383
		<u>49,275</u>	<u>54,362</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(10,250)	(15,529)
Bank overdraft	12	(67)	(2,117)
		<u>(10,317)</u>	<u>(17,646)</u>
Total assets less current liabilities		190,925	181,467
Provisions for liabilities and charges	9	(4,891)	(1,716)
		<u>(4,891)</u>	<u>(1,716)</u>
Total net assets		<u>186,034</u>	<u>179,751</u>
Financed by:			
Capital account	10	151,832	144,612
Donation reserve	10	135	139
Income and Expenditure reserve	10	34,067	35,000
		<u>186,034</u>	<u>179,751</u>

The notes at pages 154 to 161 form part of this account.

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	1995-96 £000	1996-97 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	11	<u>(3,882)</u>	<u>4,639</u>
Capital expenditure			
Payments to acquire tangible fixed assets		(6,492)	(8,840)
Receipts from sale of fixed assets		<u>77</u>	<u>11</u>
Net cash outflow before financing		<u>(10,297)</u>	<u>(4,190)</u>
Financing			
Capital funding		6,386	8,829
Donations		<u>29</u>	<u>-</u>
(Decrease)/increase in cash	12	<u>(3,882)</u>	<u>4,639</u>

The notes at pages 154 to 161 form part of this account.

Notes to the Account

Accounting policies

1.1 Accounting convention

This account has been prepared under the modified historical cost convention in accordance with accounting standards and policies for the NHS approved by the Secretary of State. Where relevant and applicable, these take cognisance of the accounting standards issued or adopted by the Accounting Standards Board and accounts directions issued by the Treasury.

There has been a change in the accounting treatment during the year whereby the enhanced costs of future pension payments for staff who have been made redundant have been charged in full to the Income and Expenditure Account. The capitalisation of these future payments has resulted in a special charge of £3.3 million to the Income and Expenditure Account and is incorporated in note 3 under Miscellaneous Expenditure.

1.2 Sources of funding

The main sources of funding for the Authority are income from sales to the NHS and overseas, and cash limited funding from Class XI, Vote 1.

All income is accounted for on an accruals basis.

1.3 Fixed assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i) valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals; the date of the most recent valuation was 1 April 1995. Between valuations the appropriate NHS indices are applied to revalue the assets;
- ii) equipment is valued each year by reference to the appropriate NHS indices.

c. Depreciation

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

- i) land and assets in the course of construction are not depreciated;
- ii) buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;

iii) equipment is depreciated over the estimated life of the asset using standard lives specified by the Department;

	Years
moveable engineering plant and equipment	15
furniture	10
mainframe information technology installations	8
vehicles and soft furnishings	7
office information technology and other equipment	5

1.4 Stocks and work in progress

a) Bio Products Laboratory

Finished goods are valued at the lower of cost and net realisable value based on average price achieved in the year. Raw materials are valued at standard purchase price. Work in progress is valued at the cost of direct materials and labour plus attributable overhead based on normal level of activity.

b) Blood Centres

Stocks of blood products have been valued at the cost of collection and processing only. No value has been attributed to the blood itself.

Raw materials are valued at the lower of cost and net realisable value.

1.5 Debtors and creditors

Debtors and creditors are assessed on the basis of goods and services supplied or received on or before 31 March 1997 for which payment has not been received or made by this date.

1.6 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings.

1.7 Research and development

Research and development expenditure is written off in the year in which it is incurred.

1.8 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over useful lives. Rentals under operating leases are charged on a straight line basis over the terms of the leases.

1.9 Pension contributions

The cost of employer pension contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.10 Auditor's remuneration

Audit fees disclosed in note 3 are for the external audit of the Authority.

1.11 Clinical negligence

The Authority has registered for assistance from the Existing Liabilities Scheme, administered by the NHS Litigation Authority, in respect of clinical negligence claims arising against predecessor bodies. The Authority accrues for the best estimate of future payments in respect of known incidents for certain or probable clinical negligence which can be reasonably estimated. Other potential payments in respect of known incidents are disclosed as contingent liabilities.

Staff costs	2	1995-96 £000	1995-96 £000
<i>Authority members' remuneration:</i>			
Non-executive members' remuneration		42	31
<i>Executive members' remuneration:</i>			
Basic salaries		253	241
Benefits		7	5
Performance related bonuses		6	-
Pension contributions		10	10
		<u>318</u>	<u>287</u>
		£000	1995-96 £000
<i>Executive members' remuneration and staff costs:</i>			
Salaries and wages		76,155	73,411
Social security costs		7,171	5,589
Other pension costs		4,109	2,301
Agency staff		1,844	1,420
		<u>89,279</u>	<u>82,721</u>

The average number of employees (excluding agency staff) during the year was 5,159. (1995-96 - 5,150).

The Chairman's emoluments, including taxable benefits, were £18,000. (1995-96 - £11,000).

The Chief Executive received total remuneration, including taxable benefits and the employer's contribution to the NHS Superannuation Scheme of £91,000. (1995-96 - £82,000).

The remuneration of the highest paid director, including taxable benefits and the employer's contribution to the NHS Superannuation Scheme, was £105,000. (1995-96 - £101,000).

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

Range £	1995-96	
	Number	Number
Up to 5,000	5	4
10,001 to 15,000	-	1
70,001 to 75,000	-	1
80,001 to 85,000	1	1
More than 100,000	-	1

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

Range £	1995-96	
	Number	Number
40,001 to 45,000	27	23
45,001 to 50,000	23	21
50,001 to 55,000	10	22
55,001 to 60,000	11	3
60,001 to 65,000	5	6
65,001 to 70,000	6	3
70,001 to 75,000	3	4
75,001 to 80,000	3	1
80,001 to 85,000	2	1
85,001 to 90,000	2	1
95,001 to 100,000	-	2
More than 100,000	3	1

**Other
operating costs**

3

	1995-96	
	£000	£000
Authority members' fees	42	31
Supplies and services	58,103	53,348
Establishment expenses	10,589	11,049
Transport and moveable plant	3,613	3,251
Premises and fixed plant	11,987	13,542
External contractors	1,923	501
Depreciation	10,332	9,282
Capital charges	7,452	8,564
Appointed auditor's remuneration	258	188
Miscellaneous	8,026	5,397
	<u>112,325</u>	<u>105,153</u>

Hire and operating rentals included in expenses:

Hire of plant and machinery	388	132
Other operating leases	1,001	670
	<u>1,389</u>	<u>802</u>

Public Sector Payment Policy – Measure of compliance **4** The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 55.65%, representing 59.81% by value, were paid within the 30 days target. (1995-96: 80.15%, representing 80.33% by value, were paid within the 30 days target).

Fixed assets	5	Land	Buildings installations and fittings	Assets under construction
		£000	£000	£000
Net book value at 31 March 1996		11,396	107,609	271
Additions		–	3,980	4,485
Transfers		–	(1,034)	(538)
Indexation		235	4,065	8
Revaluation		(56)	(197)	–
Depreciation provided during the year		–	(3,796)	–
Net book value at 31 March 1997		11,575	110,627	4,226
Equipment				
Gross replacement cost at 31 March 1996		£000 55,164		
Additions		4,707		
Transfers		1,825		
Indexation		1,438		
Revaluation		–		
Disposals		(5,681)		
Gross replacement cost at 31 March 1997		57,453		
Accumulated depreciation at 31 March 1996		29,689		
Provided during the year		6,243		
Transfers		253		
Indexation		746		
Revaluation		29		
Disposals		(5,046)		
Accumulated depreciation at 31 March 1997		31,914		
Net book value at 31 March 1996		25,475		
Net book value at 31 March 1997		25,539		

Total fixed assets	Net book value at 31 March 1997 £000	Net book value at 31 March 1996 £000
Land	11,575	11,396
Buildings, installations and fittings	110,627	107,609
Equipment	25,539	25,475
Assets under construction	4,226	271
	<u>151,967</u>	<u>144,751</u>

Net Book Value of Land and Buildings at 31 March 1997

	£000
Freehold	114,272
Long leasehold	7,930
	<u>122,202</u>

Stocks	6		31 March 1996 £000	31 March 1996 £000
Raw materials and consumables			9,102	13,471
Work-in-progress			11,977	11,378
Finished goods and goods for resale			6,710	6,586
			<u>27,789</u>	<u>31,435</u>

Debtors	7		31 March 1996 £000	31 March 1996 £000
Department of Health, health authorities, and NHS Trusts			13,980	10,900
Other debtors			5,386	3,708
Prepayments and accrued income			1,669	1,936
			<u>21,035</u>	<u>16,544</u>

Creditors: Amounts falling due within one year	8		31 March 1996 £000	31 March 1996 £000
Department of Health, health authorities, and NHS Trusts			1,684	1,315
Income tax and social security			14	1,672
Other creditors			8,544	12,444
Payments received on account			8	98
			<u>10,250</u>	<u>15,529</u>

Provisions for liabilities and charges	9	Pensions:	Other	Total
		relating to other staff		
		£000	£000	£000
At 1 April 1996		–	1,716	1,716
Arising during the year		3,156	981	4,137
Utilised during the year		–	(962)	(962)
At 31 March 1997		<u>3,156</u>	<u>1,735</u>	<u>4,891</u>

Reserves	10	Capital	Donation	Revaluation	Income &
		Account	Reserve	Reserve	Expenditure
		£000	£000	£000	Reserve
		£000	£000	£000	£000
At 31 March 1996		144,612	139	–	35,000
Transfer from Income & Expenditure Account		–	–	–	(933)
Additions		13,144	29	–	–
Revaluation & indexation		–	3	4,714	–
Disposals		(613)	(22)	–	–
Depreciation		(10,025)	(14)	–	–
At 31 March 1997		<u>147,118</u>	<u>135</u>	<u>4,714</u>	<u>34,067</u>

Reconciliation of operating (deficit) to net cash (outflow)/inflow from operating activities	11	1995-96	
		£000	£000
Operating (deficit)		(934)	(2,424)
Depreciation of donated assets		14	13
Releases from donation reserve		(14)	(13)
(Increase)/decrease in net balances with the Department, health authorities & NHS Trusts		(2,712)	1,611
Decrease in stocks		3,646	1,060
(Increase) in other debtors		(1,238)	(1,484)
(Decrease)/increase in creditors		(2,644)	5,876
Net cash (outflow)/inflow from operating activities		<u>(3,882)</u>	<u>4,639</u>

Analysis of changes in cash	12	At 31	Change	At 31
		March	during	March
		1996	the year	1997
		£000	£000	£000
Cash at bank and in hand		6,383	(5,932)	451
Bank overdraft		(2,117)	2,050	(67)
		<u>4,266</u>	<u>(3,882)</u>	<u>384</u>

Contingent liabilities 13 A contingent liability of £3.425 million, relating to outstanding claims in relation to Hepatitis C, has not been included in the accounts. These claims are disputed by the Authority and have been registered under the Existing Liabilities Scheme (ELS) with the NHS Litigation Authority. The £3.425 million represents the gross cost to the Authority of meeting the claims, were the claims to be successful, and makes no allowance for contributions receivable under ELS.

Capital commitments	14		31 March 1996
			£000 £000
		Contracted for	2,729 1,942
		Authorised but not contracted	3,446 4,706
			<u>6,175</u> <u>6,648</u>

Operating lease commitments	15	Commitments under non-cancellable operating leases:		
			Land and Buildings	Other
			£000	£000
		Operating leases which expire:		
		Within one year	378	64
		Between one and five years	570	216
		In over five years	9	-
			<u>957</u>	<u>280</u>

Losses 16 There were 311 loss cases in 1996-97 amounting to £366,504 including one case amounting to £127,479 relating to compensation under legal obligation.

Post balance sheet events 17 On 13 May 1998, the Government confirmed that all blood plasma used in Britain is to be bought from the United States for the foreseeable future because of the hypothetical risk that supplies obtained in Britain could be infected with new variant CJD. In this respect, a provision of £2m has been made in the 1998-99 budget against the possibility of having to write-off intermediate, quarantine and finished goods stocks, once US plasma-derived products become available in Autumn 1998. In addition, from the end of May 1998, UK plasma collected together with existing stocks will be destroyed and the cost of this will amount to approximately £22m for 1998-99. The NHS Executive has undertaken to fund any deficit arising over and above that envisaged in the Authority's previously agreed cash limit.

The summarised accounts direction is at page 235.

NHS Litigation Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on page 167 to 175 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 170 to 172.

Respective responsibilities of Accounting Officer and Auditors

As described on page 165 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net liabilities of the National Health Service Litigation Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing operations

	Notes	£000	1995-96 £000
Income			
Department of Health Funding	2	8,114	-
CNST Income	2	<u>7,963</u>	<u>3,421</u>
		16,077	3,421
Expenditure			
Authority and claims administration	2,3	4,511	188
Claims and associated costs	2	<u>74,411</u>	<u>514</u>
		78,922	702
(Deficit)/surplus for the year		<u>(62,845)</u>	<u>2,719</u>

The Authority had no recognised gains or losses other than the deficit for the year.

The notes at pages 170 to 175 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed Assets	5	39	-
Current Assets			
Debtors	6	468	1,506
Cash at bank and in hand		<u>11,069</u>	<u>1,915</u>
		11,537	3,421
Current Liabilities			
Creditors: amounts falling due within one year	7	(2,540)	(702)
Total Assets less Current Liabilities		9,036	2,719
Provision for liabilities and charges	8	<u>(69,123)</u>	<u>-</u>
Total net (liabilities)/assets		(60,087)	2,719
Financed by:			
Capital account	9	39	-
CNST Reserve	10	9,676	2,907
Income and expenditure reserve	11	<u>(69,802)</u>	<u>(188)</u>
		<u>(60,087)</u>	<u>2,719</u>

The notes at pages 170 to 175 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Operating Activities			
Net cash inflow from operating activities	13	9,154	1,915
Capital Expenditure			
Payments to acquire tangible fixed assets		(39)	-
Financing			
Capital Funding		<u>39</u>	<u>-</u>
Increase in cash	14	<u>9,154</u>	<u>1,915</u>

The notes at pages 170 to 175 form part of this account

Notes to the Account

- Accounting policies**
- 1.1 Accounting conventions**
This account has been prepared under the historical cost convention in accordance with the standard accounting practice for the NHS, approved by the Secretary of State, and accounts directions issued by the Treasury. Comparative figures shown are for the Authority's first financial period (20 November 1995 to 31 March 1996).
- 1.2 Income**
The Authority had two sources of funding during 1996-97 i.e. payments receivable from NHS Trusts who are members of the CNST and income allocations from the Department of Health to fund the Ex-RHA and ELS schemes. Department of Health advances are from Class XI, Vote 1, subhead A2.
- 1.3 Fixed assets**
The Authority purchased fixed assets in the final quarter of the financial year. Depreciation will start to be charged in 1997-98, in accordance with the accounting policy.
- a. Capitalisation*
Assets falling into the following categories have been capitalised:
- i tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000.
 - ii groups of tangible assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.
- b. Valuation*
Equipment held for operational use is valued at depreciated replacement cost.
- c. Depreciation*
Equipment is to be depreciated over the estimated life of the asset:
- | | Years |
|--|-------|
| furniture | 10 |
| office, information technology and other equipment | 3 |
- 1.4 Losses and Special Payments**
No losses or special payments were made in the year.
- 1.5 Pension contributions**
The cost of employer contributions to the NHS Superannuation scheme is charged to the income and expenditure account.
- 1.6 Leases**
The Authority had no finance leases during the year.

1.7 Claims expenditure

Claims expenditure includes the settlement of claims, costs of payments into court, plaintiffs' costs (where relevant), fees to legal firms and the costs of associated professional fees.

1.8 Allocation of costs

The apportionment of administration expenditure, to the various segments in the income and expenditure account, has been made on the basis of actual costs where known, with the remainder based pro rata on the legal costs associated with administering the individual schemes.

1.9 Outstanding claims liabilities*Existing Liabilities Scheme (ELS)*

The Authority is responsible for the administration of the ELS on behalf of the Department of Health. The Authority only accounts for the administration costs of ELS and does not make any provisions or report any contingent liabilities in respect of ELS. The relevant NHS bodies record provisions and contingent liabilities for unsettled claims, generally net of amounts expected to be reimbursed by ELS. The Authority's accounts do not include interim payments made by the Department of Health amounting to £63,835,000 in respect of settlements potentially falling within ELS. The account also excludes payments made directly by the Authority under ELS, amounting to £1,597,000, and the equivalent amount has been deducted from the Authority's cash limit in the calculation of income.

Clinical Negligence Scheme for Trusts (CNST)

Outstanding claims liabilities for the CNST are to be recorded in the accounts of the Authority as follows:

- i) where the amount of a claim has been agreed with a member Trust but the payment to the Trust from CNST is still outstanding, an accrual is included within "Creditors - English NHS Trusts (CNST)". There were no items in this category at 31 March 1997.
- ii) where a claim has been agreed with a member Trust but amounts are still outstanding, for example where a structured settlement was agreed, accruals are included within "Creditors - NHS Trusts (CNST)" and, if appropriate, within "Creditors - amounts due after more than one year (CNST)". There were no items in this category at 31 March 1997.
- iii) where CNST members have provided information relating to incidents where there is a potential claim, a sum is included at note 12 as a contingent liability to indicate the estimate of the most likely payment from CNST.

Any liabilities identified are based on the assumption that the CNST members have assessed provisions in accordance with scheme guidelines, that they are qualifying incidents and that the Trusts remain members of the scheme.

Ex-Regional Health Authorities (RHAs) Scheme

The authority undertook a review of all outstanding Ex-RHA claims as at 31 March 1997, to identify those that were likely to result in settlement at some stage in the future. The Authority has assumed full liability for these claims and made a provision of £69,123,000 (Note 8). This review also identified claims where no action had been taken by the plaintiff for a number of years and further action was unlikely to be taken by the plaintiff to resurrect the claim.

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

Allocation of income and expenditure to the clinical negligence funding schemes	2	CNST	CNST	ex-RHAs	ex-RHAs	ELS	ELS	Total	Total
		1995-96	1995-96	1995-96	1995-96	1995-96	1995-96	1995-96	1995-96
		£000	£000	£000	£000	£000	£000	£000	£000
Income									
Department of Health funding									
		-	-	4,744	-	2,804	-	7,548	-
		<u>7,963</u>	<u>3,421</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,963</u>	<u>3,421</u>
		<u>7,963</u>	<u>3,421</u>	<u>4,744</u>	<u>-</u>	<u>2,804</u>	<u>-</u>	<u>15,511</u>	<u>3,421</u>
Department of Health funding (not allocated to schemes)									
								566	-
								<u>16,077</u>	<u>3,421</u>
Expenditure									
Authority and claims administration									
		1,194	514	135	-	2,804	-	4,133	514
Claims and associated costs									
		<u>-</u>	<u>-</u>	<u>74,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,411</u>	<u>-</u>
		<u>1,194</u>	<u>514</u>	<u>74,546</u>	<u>-</u>	<u>2,804</u>	<u>-</u>	<u>78,544</u>	<u>514</u>
Administration expenditure (not allocated to schemes)									
								378	188
								<u>78,922</u>	<u>702</u>
(Deficit)/surplus for the year									
		<u>6,769</u>	<u>2,907</u>	<u>(69,802)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,845)</u>	<u>2,719</u>

Authority administration	3.1	<i>Authority administration costs include:</i>		1995-96	
			Notes	£000	
				£000	
		Non-executive members' remuneration	3.2	24	9
		Other salaries and wages	3.3	146	28
		Establishment expenses		32	8
		Transport and moveable plant		4	-
		Premises		90	-
		External contractors		4,187	137
		Auditors' remuneration - audit fee		16	6
	Miscellaneous		12	-	
			<u>4,511</u>	<u>188</u>	

Operating leases of £4,000, in respect of the Chief Executive's car, are included in the costs of the authority.

Commitments under non-cancellable operating leases are:

Land and buildings	£000
Expiring between 1 and 5 years	4
Other leases	
Expiring after 5 years	32

3.2 *Authority members' remuneration:*

The Chairman's remuneration was £19,000 (1995-96: £6,955). The Chief Executive's remuneration was £52,000, including basic salary of £47,000, benefits of £3,000 and pension contributions of £2,000. One other member received remuneration in the range £0 to £5,000.

3.3	<i>Executive members and other staff costs:</i>	£000	£000
	Salaries and wages	99	-
	Social security costs	11	-
	Other pension costs	3	1
	Agency staff	33	27
		<u>146</u>	<u>28</u>

The average number of employees, excluding agency staff, during the year was 5.

**Public Sector
Payment Policy -
Measure of
compliance**

- 4** The authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 91.5%, representing 98.8% by value, were paid within the 30 day target.

Fixed assets	5		Equipment
			£000
		Gross replacement cost at 31 March 1996	-
		Additions	<u>39</u>
		Gross replacement cost at 31 March 1997	<u>39</u>
		Accumulated depreciation at 31 March 1996	-
		Accumulated depreciation at 31 March 1997	-
		Net book value at 31 March 1996	-
		Net book value at 31 March 1997	<u>39</u>
<hr/>			
Debtors	6		31 March
			1996
			£000
		NHS Trusts	<u>83</u> 1,506
		Other debtors	<u>385</u> -
			<u>468</u> 1,506
<hr/>			
Creditors: Amounts falling due within one year	7		31 March
			1996
			£000
		Department of Health	<u>404</u> 396
		Income tax and social security	<u>10</u> 4
		Other creditors	<u>2,126</u> 302
			<u>2,540</u> 702
<hr/>			
Provision for liabilities and charges	8		ex-RHA
			scheme
			£000
		At 31 March 1996	-
		Arising during year	<u>69,123</u>
		At 31 March 1997	<u>69,123</u>
<hr/>			
Capital account	9		£000
		At 31 March 1996	-
		Additions	<u>39</u>
		At 31 March 1997	<u>39</u>

CNST reserve	10		£000
		At 31 March 1996	2,907
		Transfer from Income and Expenditure Account	<u>6,769</u>
		At 31 March 1997	<u>9,676</u>

Income and expenditure reserve	11		Authority	Ex-RHA	Total
			£000	£000	£000
		At 31 March 1996	(188)	-	(188)
		Transfer from Income and Expenditure Account	<u>188</u>	<u>(69,802)</u>	<u>(69,614)</u>
		At 31 March 1997	<u>-</u>	<u>(69,802)</u>	<u>(69,802)</u>

Contingent liabilities	12	<i>The following contingent liabilities have not been included in the accounts:</i>		31 March
				1996
			£000	£000
		Potential payments to NHS Trusts under the Clinical Negligence Scheme for Trusts (CNST) (Note 1.9)	<u>92,000</u>	<u>61,478</u>
			<u>92,000</u>	<u>61,478</u>

Net cash inflow from operating activities	13		1995-96
			£000
		Operating (deficit)/surplus for the financial year	(62,845)
		Decrease/(Increase) in net balances with the Department and NHS Trusts	1,431
		(Increase) in other debtors	(385)
		Increase in other creditors	1,830
		Increase in provision for liabilities and charges	<u>69,123</u>
		Net cash inflow	<u>9,154</u>

Analysis of changes in cash during the period	14	At	Cash	At
		31 March	Flows	31 March
		1996		1997
		£000	£000	£000
		Cash at bank and in hand	<u>9,154</u>	<u>11,069</u>

The summarised accounts direction is at page 235.

NHS Supplies Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 181 to 191 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 184 and 185.

Respective responsibilities of Accounting Officer and Auditors

As described on page 179 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the National Health Service Supplies Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000	1995-96 £000
Income			
Operating income	2	<u>619,741</u>	<u>621,425</u>
		<u>619,741</u>	<u>621,425</u>
Expenditure			
Cost of sales	3	506,746	504,671
Staff costs and administration expenses	3,4	<u>112,057</u>	<u>116,149</u>
		<u>618,803</u>	<u>620,820</u>
Surplus for the financial year		<u>938</u>	<u>605</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	£000	1995-96 £000
Surplus for the financial year	938	605
Unrealised surplus/(deficit) on the revaluation and indexation of fixed assets	1,333	(4,680)
Net assets transferred to NHS bodies	-	(188)
Total recognised gains/(losses) for the financial year	<u>2,271</u>	<u>(4,263)</u>

The notes at pages 184 to 191 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed Assets	6	35,489	41,312
Current Assets			
Stocks		37,575	45,558
Debtors	7	76,291	56,365
Cash at bank and in hand		2,799	4,266
		<u>116,665</u>	<u>106,189</u>
Current Liabilities			
Creditors: amounts falling due within one year	8	<u>44,655</u>	<u>28,919</u>
Total Assets less Current Liabilities		107,499	118,582
Creditors: amounts falling due after more than one year	9	-	5,109
Provisions for liabilities and charges	10	<u>17,762</u>	<u>18,851</u>
Total Net Assets		<u>89,737</u>	<u>94,622</u>
Financed By:			
Capital account	12	35,489	41,312
Income and expenditure reserve	13	<u>54,248</u>	<u>53,310</u>
		<u>89,737</u>	<u>94,622</u>

The notes at pages 184 to 191 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Operating Activities			
Net cash (outflow)/inflow from operating activities	14	(3,070)	2,297
Capital Expenditure			
Payments to acquire tangible fixed assets		(330)	(911)
Receipts from sale of tangible fixed assets		<u>4,033</u>	<u>533</u>
Net cash inflow before financing		633	1,919
Financing			
Capital funding		-	234
Surrender of receipts from sale of fixed assets		<u>(2,100)</u>	<u>-</u>
(Decrease)/increase in cash	15	<u>(1,467)</u>	<u>2,153</u>

The notes at pages 184 to 191 form part of this account

Notes to the Account

Accounting policies 1.1

Accounting conventions

This account has been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with standard accounting practice for the NHS approved by the Secretary of State.

1.2 Income Allocations

The main source of funding for the Authority is from the sale of goods and services to other health authorities and NHS Trusts.

1.3 Fixed Assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i land, buildings, installations and fittings held for operational use are stated at depreciated replacement cost, other than surplus land and buildings which are stated at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. The last valuation was made on the 1 April 1995. Between valuations, an appropriate index is applied to the assets;
- ii equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at net recoverable amount;
- iii assets in the course of construction are valued at current cost.

c. Depreciation

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

- i land and assets in the course of construction are not depreciated;
- ii buildings, installations and fittings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;

iii equipment is evenly depreciated over the estimated life of the asset using standard lives specified by the Department;

	Years
moveable engineering plant and equipment	15
furniture	10
mainframe information technology installations	8
vehicles and soft furnishings	7
office, information technology and other equipment	5

1.4 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.5 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings.

1.6 Leases

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

1.7 Pension contributions

The cost of employer pension contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.8 Auditor's remuneration

Audit fees for the audit of the Authority and other auditor's remuneration are disclosed in note 3.

1.9 Exceptional costs

Provision is made for anticipated liabilities relating to the reorganisation of the Authority. Where estimated they are based on costs incurred during previous stages of the reorganisation.

1.10 NHS Overseas Enterprises

The results of NHS Overseas Enterprises have been fully consolidated with the accounts of NHS Supplies Authority. NHS Overseas Enterprises was closed on 31 March 1997.

Operating income	2	1995-96
		£000
Sales to NHS customers		554,270
Fees		44,054
Sales to non-NHS customers		13,586
Discounts received		3,537
Other		4,294
		<u>619,741</u>
		<u>621,425</u>

Cost of sales and administration	3	1995-96
		£000
Cost of sales		506,746
Authority members' remuneration		403
Other salaries and wages		65,941
Depreciation		1,854
Capital charges		1,572
Auditors' remuneration – audit fee		136
– other fees		72
Miscellaneous		42,079
		<u>618,803</u>
		<u>620,820</u>

Hire and operating rentals included in expenses:

Hire of plant and machinery	1,622	2,119
Other operating leases	1,673	2,460
	<u>3,295</u>	<u>4,579</u>

Staff costs	4	1995-96
		£000
<i>Authority members' remuneration:</i>		
Non-executive members' remuneration	43	43
<i>Executive members' remuneration:</i>		
Basic salaries	311	288
Benefits	12	12
Performance related bonuses	24	31
Pension contributions	13	12
	<u>403</u>	<u>386</u>
<i>Executive members' remuneration and staff costs:</i>		
Salaries and wages	58,661	59,049
Social security costs	4,113	4,491
Other pension costs	1,784	1,805
Agency staff	1,743	1,428
	<u>66,301</u>	<u>66,773</u>

The average number of employees (excluding agency staff) during the year was 4,167 (1995-96 – 4,221), of which 137 (1995-96 – 119) were employed in the headquarters function and 4,030 (1995-96 – 4,102) in support services.

The Chairman's emoluments, including taxable benefits but excluding employer's pension contributions, were £21,000 (1995-96 – £21,000).

The Chief Executive's total remuneration, including taxable benefits and the employer's contribution to the NHS Superannuation Scheme (of which the Chief Executive is an ordinary member) was £110,000 (1995-96 – £107,000).

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

Range £	Number	1995-96 Number
up to 5,000	5	6
75,001 to 80,000	–	2
80,001 to 85,000	2	1
85,001 to 90,000	1	–

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

Range £	Number	1995-96 Number
40,000 to 45,000	21	20
45,001 to 50,000	12	20
50,001 to 55,000	10	9
55,001 to 60,000	2	2
60,001 to 65,000	2	1
65,001 to 70,000	1	2
70,001 to 75,000	1	5
75,001 to 80,000	3	3
80,001 to 85,000	3	2
105,001 to 110,000	1	1

**Public Sector
Payment Policy –
Measure of
compliance**

5 The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 62.6% (1995-96 72.6%), representing 66.7% by value (1995-96 81.6%), were paid within the 30 day target.

Fixed assets

6

	Land	Buildings, installations and fittings	Assets under construction
	£000	£000	£000
Net book value at 31 March 1996	10,107	25,117	103
Additions	11	100	77
Indexation	198	984	–
Depreciation provided during the year	–	(679)	–
Disposals	(1,760)	(2,870)	–
Net book value at 31 March 1997	8,556	22,652	180

Fixed assets (continued)	6	Equipment	
		£000	
Gross replacement cost at 31 March 1996		17,503	
Additions		129	
Transfers		(565)	
Indexation		448	
Revaluation		(996)	
Disposals		<u>(2,923)</u>	
Gross replacement cost at 31 March 1997		<u>13,596</u>	
Accumulated depreciation at 31 March 1996		11,518	
Provided during the year		1,376	
Transfers		(478)	
Indexation		297	
Revaluation		(426)	
Disposals		<u>(2,792)</u>	
Accumulated depreciation at 31 March 1997		<u>9,495</u>	
Net book value at 31 March 1996		<u>5,985</u>	
Net book value at 31 March 1997		<u>4,101</u>	
		Net book value at 31 March 1997 £000	Net book value at 31 March 1996 £000
Total Fixed Assets			
Land		8,556	10,107
Buildings, installations and fittings		22,652	25,117
Equipment		4,101	5,985
Assets under construction		<u>180</u>	<u>103</u>
		<u>35,489</u>	<u>41,312</u>
Net Book Value of Land and Buildings at 31 March 1997			31 March
		£000	1996 £000
Freehold		29,848	33,979
Long leasehold		1,317	1,245
Short leasehold		<u>43</u>	<u>-</u>
		<u>31,208</u>	<u>35,224</u>

Debtors	7			31 March
				1996
			£000	£000
		Department of Health, health authorities and NHS Trusts	67,031	46,657
		Other debtors	6,776	3,918
		Prepayments and accrued income	2,484	5,790
			<u>76,291</u>	<u>56,365</u>

Creditors:	8			31 March
Amounts falling due				1996
within one year			£000	£000
		Department of Health, health authorities and NHS Trusts	6,794	333
		Income tax and social security	78	13
		Non-NHS trade creditors	27,456	19,532
		Other creditors	10,300	8,959
		Rentals due under operating leases	-	66
		Payments received on account	27	16
			<u>44,655</u>	<u>28,919</u>

The balance of £6,794,000 includes an amount of £5 million received under NHS brokerage arrangements. These funds were advanced from Class XI, Vote 1 and repaid in April 1997.

Creditors:	9			31 March
Amounts falling due				1996
after more than			£000	£000
one year		Other creditors	-	5,109

Provisions for	10		Pensions	Other	Total
liabilities and			relating		
charges			to staff		
			£000	£000	£000
		At 31 March 1996	13,940	4,911	18,851
		Arising during the year	4,908	5,265	10,173
		Utilised during the year	(6,230)	(5,032)	(11,262)
		At 31 March 1997	<u>12,618</u>	<u>5,144</u>	<u>17,762</u>

Operating lease	11	<i>Commitments under non-cancellable operating leases are as follows:</i>		
commitments			Land and	Other
			Buildings	
			£000	£000
		Operating leases which expire:		
		Within one year	150	425
		Between one and five years	436	4,809
		In over five years	7,957	-
			<u>8,543</u>	<u>5,234</u>

Capital account	12		£000
		At 31 March 1996	41,312
		Additions	317
		Transfers	(87)
		Revaluations and indexation	1,333
		Disposals and write off	(5,331)
		Depreciation	(2,055)
		At 31 March 1997	<u>35,489</u>

Income and expenditure reserve	13		£000
		At 31 March 1996	53,310
		Transfer from Income and Expenditure account	938
		At 31 March 1997	<u>54,248</u>

Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	14		1995-96
			£000
		Operating surplus for the financial year	605
		(Increase) in NHS balances	(10,668)
		Decrease in stocks	1,522
		Decrease/(increase) in other debtors	(291)
		Increase in other creditors	11,317
		Net current assets transferred to NHS Trusts	(188)
		Net cash (outflow)/inflow from operating activities	<u>2,297</u>

Analysis of changes in cash	15	31 March	Cash	31 March
		1996	flows	1997
		£000	£000	£000
		<u>4,266</u>	<u>(1,467)</u>	<u>2,799</u>

Contingent liabilities 16 As at 31 March 1997 legal claims with an assessed value of £1,087,000 in respect of personal claims and industrial accidents had been made against the Authority. These claims are disputed and until they are resolved, it is not possible to determine the Authority's liability in this regard, if any. £382,000 has been provided in this account for these items. The balance of £705,000 has not been provided (31 March 1996: £831,000 contingent liability was not provided).

Capital commitments	17			31 March 1996
			£000	£000
		Contracted for	405	59
		Authorised but not contracted	96	-
			<u>501</u>	<u>59</u>

Losses and Special Payments 18

There were losses and special payments totalling £821,242 approved during 1996-97.

The summarised accounts direction is at page 235.

Prescription Pricing Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 197 to 205 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 200 and 201.

Respective responsibilities of Accounting Officer and Auditors

As described on page 195 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Prescription Pricing Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Income			
Advances from the Department of Health	2	40,922	40,876
Miscellaneous income	3	5,577	6,259
		<u>46,499</u>	<u>47,135</u>
Expenditure			
Staff costs	4	29,766	31,620
Other operating costs	5	14,786	16,507
		<u>44,552</u>	<u>48,127</u>
Loss on asset disposal		-	(10)
Surplus/(deficit) for the financial year		<u>1,947</u>	<u>(1,002)</u>

All operations are continuing.

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	Note	£000	1995-96 £000
Surplus/(deficit) for the financial year		1,947	(1,002)
Unrealised surplus on the revaluation of			
Fixed Assets	11	967	501
Total recognised gains/(losses)		<u>2,914</u>	<u>(501)</u>

The notes at pages 200 to 205 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed Assets	7	20,877	21,821
Current Assets			
Stock		217	188
Debtors	8	2,039	1,097
Cash at bank and in hand	13	52	5
		2,308	1,290
Current Liabilities			
Creditors: amounts falling due within one year	9	(667)	(1,596)
Total Net Assets		22,518	21,515
Financed by:			
Deferred Government Grant	11	19,409	21,320
Revaluation reserve	11	1,468	501
Income and expenditure account	11	1,641	(306)
		22,518	21,515

The notes at pages 200 to 205 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Operating activities			
Net cash inflow/(outflow) from operating activities	12	300	(345)
Capital expenditure			
Payments to acquire tangible fixed assets		<u>(1,677)</u>	<u>(4,206)</u>
Net cash (outflow) before financing		(1,377)	(4,551)
Financing			
Departmental funding for capital expenditure		<u>1,424</u>	<u>4,467</u>
Increase/(decrease) in cash	13	<u>47</u>	<u>(84)</u>

There were no investing activities.

The notes at pages 200 to 205 form part of this account

Notes to the Account

- Accounting Policies** 1.1 **Accounting Convention**
 This account has been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with standard practice and policies for the NHS approved by the Secretary of State and accounts directions issued by the Treasury.
- Income Allocations** 1.2 The main source of funding for the Authority is cash advances from the Department of Health within an approved cash limit; these advances are recorded in the account on a receipts basis rather than an accruals basis.
- Fixed Assets** 1.3 The treatment of fixed assets in the accounts is in accordance with the NHS Capital Charges Manual and accepted accounting standards.

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i land and buildings are valued by the District Valuer of the Inland Revenue at five yearly intervals. The date of the most recent valuation was 1 April 1995. Between valuations, an appropriate index is applied to revalue the assets.
- ii equipment is valued each year by reference to the appropriate NHS indices.

c. Depreciation

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

- i land is not depreciated;
- ii buildings are depreciated on their revalued amount evenly over the assessed remaining life of the asset as advised by the District Valuer;
- iii equipment is depreciated evenly over the estimated life of the asset as follows:

	Years
mainframe IT installations	8
computers	5
furniture, fixtures and fittings	10
office equipment	5

1.4 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.5 Debtors and creditors

Debtors and creditors are assessed on the basis of goods and services supplied or received on or before 31 March 1997 for which payment has not been received or made by this date.

1.6 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings. Certain losses would have been made good through insurance cover had the Authority not been bearing its own risks and in that case the insurance premiums would have been included as normal revenue expenditure.

1.7 Pension Contributions

The cost of employer pension contributions to the NHS Superannuation and other Schemes is charged to the income and expenditure account.

**Advances from the
Department
of Health** **2**

	1995-96	
	£000	£000
Advances from Class XI, Vote 1	<u>40,922</u>	<u>40,876</u>

Other income **3**

	1995-96	
	£000	£000
Funding from other bodies	774	840
Pricing for other authorities	279	324
Contribution towards legal costs	250	-
Sale of equipment	6	4
VAT	7	18
Other	12	-
	<u>1,328</u>	<u>1,186</u>
Capital grant for assets under £5,000	924	1,909
Transfer from deferred government grant (Note 11)	<u>3,325</u>	<u>3,164</u>
	<u>5,577</u>	<u>6,259</u>

Staff costs **4**

	1995-96	
	£000	£000
<i>Authority members' remuneration:</i>		
Non-executive members' remuneration	40	26
<i>Executive members' remuneration:</i>		
Basic salaries	65	62
Benefits	3	-
Pension contributions	4	3
	<u>112</u>	<u>91</u>

	£000	1995-96 (Restated) £000
<i>Executive members' remuneration and other staff costs:</i>		
Salaries and wages	26,566	26,980*
Social security costs	2,737	2,718
Other pension costs	463	1,922*
	<u>29,766</u>	<u>31,620</u>

The average number of employees (excluding agency staff) during the year was 1,928 (1995-96 – 1,945).

The Chairman's emoluments, including taxable benefits but excluding employer's pension contributions, were £15,000. (1995-96 – £15,000).

The Chief Executive's total remuneration, including taxable benefits and the employer's contribution to the NHS Superannuation Scheme (of which the Chief Executive is an ordinary member) was £71,346 (1995-96 – £65,000).

The remuneration of the other 6 board members are all in the range of £0 to £5,000 for 1996-97 (and for 1995-96).

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

Range £	Number	1995-96 Number
40,000 to 45,000	3	2
45,001 to 50,000	2	1
50,001 to 55,000	2	–
55,001 to 60,000	–	1
60,001 to 65,000	–	1
70,001 to 75,000	2	–

The remuneration of the highest paid officer was £71,346.

*1995-96 figures have been restated to show the £560,000 of contributions made for pension enhancements as other pension costs rather than salaries and wages.

Other operating costs	5		1995-96
		£000	£000
		Rent and rates	1,657
		Maintenance, fuel, power and cleaning	2,147
		Equipment and furniture	4,617
		Stationery, printing, postage and telephone	3,060
		Staff training, advertising and removal expenses	282
		Transport	505
		Travel and subsistence	373
		Depreciation	3,154
		Audit fee	37
		Other auditors' remuneration	29
		Miscellaneous	646
		1,154	646
		14,786	16,507
		<i>Hire and operating rentals included in expenses:</i>	
		Other operating leases	1,053
		1,025	1,053

Public Sector Payment Policy – Measure of compliance **6**

The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 83% representing 80% by value, were paid within the 30 days target. (1995-96 – 76.8%, representing 83.1% by value, were paid within the 30 days target).

Fixed Assets	7		Land	Building	Equipment	Assets under construction	Total
			£000	£000	£000	£000	£000
		Cost at 31 March 1996	613	5,794	25,607	–	32,014
		Indexation	12	226	676	–	914
		Revaluation	–	–	320	–	320
		Additions in the year	–	–	866	631	1,497
		Disposals	–	–	(144)	–	(144)
		Cost at 31 March 1997	625	6,020	27,325	631	34,601
		Depreciation at 31 March 1996	–	114	10,080	–	10,194
		Indexation	–	4	263	–	267
		Depreciation charged in the year	–	118	3,207	–	3,325
		Disposals	–	–	(62)	–	(62)
		Depreciation at 31 March 1997	–	236	13,488	–	13,724
		Net book value at 31 March 1997	625	5,784	13,837	631	20,877
		Net book value at 31 March 1996	613	5,680	15,528	–	21,821

Debtors	8				31 March 1996	
				£000	£000	
		Trade debtors		48	28	
		Other debtors		395	258	
		Prepayments and accrued income		<u>1,596</u>	<u>811</u>	
				<u>2,039</u>	<u>1,097</u>	
<hr/>						
Creditors: Amounts falling due within one year	9				31 March 1996	
				£000	£000	
		Creditors		486	1,100	
		Accruals		181	496	
				<u>667</u>	<u>1,596</u>	
<hr/>						
Operating lease commitments	10	<i>Commitments under non-cancellable operating leases are as follows:</i>				
		Land and buildings			31 March 1996	
				£000	£000	
		Operating leases which expire:				
		Within one year		2	-	
		Between one and five years		507	453	
		In over five years		513	513	
				<u>1,022</u>	<u>966</u>	
<hr/>						
Reserves	11		Deferred Government Grant £000	Revaluation Reserve £000	Income and Expenditure Reserve £000	Total £000
		Balance brought forward at 31 March 1996	21,320	501	(306)	21,515
		Indexation and revaluation of fixed assets	-	967	-	967
		1996-97 Capital Grant	1,496	-	-	1,496
		Transfer to Income and Expenditure Account	(3,325)	-	-	(3,325)
		Surplus for the year	-	-	1,947	1,947
		Release on disposal of assets	(82)	-	-	(82)
		Balance carried forward at 31 March 1997	<u>19,409</u>	<u>1,468</u>	<u>1,641</u>	<u>22,518</u>

Reconciliation of operating surplus to net cash inflow from operating activities	12	1995-96	
		£000	£000
Operating surplus/(deficit)		1,947	(1,002)
Loss on disposal of assets		-	10
Depreciation		3,325	3,154
(Increase) in stocks		(29)	(90)
(Increase) in debtors		(941)	-
(Decrease)/increase in creditors		(677)	747
Transfer from reserves		(3,325)	(3,164)
Net cash inflow/(outflow)		<u>300</u>	<u>(345)</u>

Analysis of changes in cash during the year	13	£000	
		Balance at 31 March 1996	
Change during the year			<u>47</u>
Balance at 31 March 1997			<u>52</u>

Capital commitments	14	1995-96	
		£000	£000
Contracted for		83	-
Authorised but not contracted		<u>-</u>	<u>1,289</u>

Contingent liabilities 15 The Authority is facing a litigation claim from a former employee. This claim is vigorously disputed and until resolved, it is not possible to determine the Authority's liability in this regard, if any.

Losses and special payments 16 The Authority has reported 30 cases of losses and special payments amounting to £36,645.

Post balance sheet events 17 From 1 April 1997, the Authority became responsible for making direct payments to pharmaceutical, appliance and oxygen concentrator contractors. Payments will include the liabilities totalling some £1 billion accrued in health authority accounts at the end of March 1997 for prescription items received in the 1996-97 financial year.

The second phase of the transfer took place from 1 July 1997, when the Authority took over responsibility for all the health authorities' locally authorised payments to pharmacists.

The final phase of reimbursements to dispensing doctors and to all general practitioners for personally administered items is planned to take effect in the 1998-99 financial year.

The summarised accounts direction is at page 235.

Rampton Special Hospital Authority

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

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

In preparing the accounts the Secretary of State is required to:

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

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

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

I certify that I have audited the financial statements on pages 211 to 221 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 214 to 217.

Respective responsibilities of Accounting Officer and Auditors

As described on page 209 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Rampton Special Hospital Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000
Income		
Advances from the Department of Health		42,706
Other		1,255
		43,961
 Expenditure		
Operating Costs	2,3	(43,955)
Operating surplus		6
Loss on disposal of fixed assets		(6)
Surplus for the year		0

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

		£000
Surplus for the year		0
Unrealised surplus on fixed asset revaluation/indexation		1,950
Total recognised gains for the financial year		1,950

The notes at pages 214 to 221 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	1 April 1996 £000
Fixed assets	4	59,703	52,669
Current Assets			
Stocks		199	183
Debtors: Amounts falling due within one year	5	588	418
Cash at bank and in hand		106	45
		<u>893</u>	<u>646</u>
Current Liabilities			
Creditors: Amounts falling due within one year	6	<u>4,137</u>	<u>4,293</u>
Net current liabilities		<u>(3,244)</u>	<u>(3,647)</u>
Total Assets Less Current Liabilities		<u>56,459</u>	<u>49,022</u>
Provisions for liabilities and charges	7	<u>(1,131)</u>	<u>(728)</u>
Total Net Assets		<u>55,328</u>	<u>48,294</u>
Financed By:			
Capital account	8.1	55,823	50,751
Revaluation reserve	8.2	1,950	-
Income and expenditure reserve	8.3	<u>(2,445)</u>	<u>(2,457)</u>
		<u>55,328</u>	<u>48,294</u>

The notes at pages 214 to 221 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000
Operating activities		
Net cash inflow from operating activities	9	49
Capital expenditure		
Payments to acquire tangible fixed assets		(6,792)
Receipts from the sale of tangible fixed assets		<u>76</u>
Net cash (outflow) before financing		<u>(6,667)</u>
Financing		
Capital Funding		<u>6,728</u>
Net cash inflow from financing		<u>6,728</u>
Increase in cash	10	<u>61</u>

The notes at pages 214 to 221 form part of this account

Notes to the Account

Accounting policies 1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with the standard accounting practice for the NHS approved by the Secretary of State and accounts directions issued by the Treasury. This is the first year Rampton has produced separate accounts, previously it had formed part of the Special Hospitals Service Authority. As a consequence the assets and liabilities appropriate to Rampton, including an opening balance on the income and expenditure account, were transferred from the old authority. There are no comparatives, except for the Balance Sheet, and the cash flow statement shows the movement in cash in the period 1 April 1996 to 31 March 1997.

1.2 Fixed Assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1996-97 was 6%. A capital charge adjustment is made to the interest charge at year end. This is the difference between the actual capital charge and the estimated (and paid) capital charge.

i. Capitalisation

All assets falling into the following categories are capitalised:

intangible assets which can be valued, are capable of being used in an Authority's activities for more than one year and have a cost equal to or greater than £5,000;

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

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

ii. Valuation

Intangible fixed assets are valued at historical cost. Tangible fixed assets are valued at current cost as follows:

Land and Buildings

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

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

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

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

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

Land and buildings assets held by the Authority were revalued by the District Valuer at 1 April 1996.

Equipment

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

Assets in the Course of Construction

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

iii. Depreciation and Amortisation

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

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

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

leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost over the estimated life of the asset using the following standard lives:

	Years
medical equipment and engineering plant and equipment	5 to 15
furniture	10
mainframe information technology installations	8
soft furnishings	7
office and information technology equipment	5
vehicles	7
set-up costs in new buildings	10

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

1.3 Stocks and Work-in-progress

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

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

1.4 Research and Development

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

1.5 Losses and special payments

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

1.6 Clinical Negligence

The Authority accrues for the best estimate of its expected share of future payouts for certain or probable clinical negligence contingent liabilities which can be reasonably estimated and discloses its expected share of all other potential payments.

1.7 Pension Costs

The Authority participates in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No.300). Under these Regulations the Authority is required to pay an employer's contribution, currently 4% of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the

Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

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

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society. Under the arrangement the Authority can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

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

Operating expenses 2

	£000
Non-executive members' remuneration	42
Other salaries and wages	29,862
Supplies and services	
- clinical	448
- general	1,442
Establishment costs	1,135
Transport costs	60
Premises and fixed plant costs	2,250
Capital: Depreciation	1,616
Capital charges interest	5,374
Audit fee	45
Recharges from other NHS bodies	75
Miscellaneous	1,606
	<u>43,955</u>
Authority members' remuneration	
Non-executive members' remuneration	42
Executive members' remuneration:	
- Basic Salaries	276
- Benefits	9
- Pension contributions	13
	<u>340</u>

	Chairman £000	Chief Executive £000
Basic salaries	19	66
Benefits	1	2
Pension contributions	-	2
	<u>20</u>	<u>70</u>

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

Range £	Number
Up to 5,000	5
5,001 to 10,000	1
10,001 to 15,000	1
20,001 to 25,000	1
40,001 to 45,000	3
60,001 to 65,000	1

Executive members' remuneration and staff costs

	£000
Salaries and wages	26,466
Social security costs	2,113
Other pension costs	943
Agency staff	355
	<u>29,877</u>

The average number of employees was 1,268.

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

40,000 to 50,000	7
50,001 to 60,000	7
60,001 to 70,000	4
70,001 to 80,000	3

**Public Sector
Payment Policy –
Measure of
compliance**

3 The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of a sample of relevant bills, 92%, representing 92% by value, were paid within the 30 days target.

Tangible fixed assets	4	Freehold	Buildings	Assets
		Land	installations and fittings	under construction
		£000	£000	£000
		2,578	40,502	9,232
Cost or valuation as at 1 April 1996				
Indexation		51	1,582	359
Additions - purchased		-	2,862	3,411
Transfers		(11)	6,945	(7,185)
Revaluation		-	(51)	-
Depreciation provided during the year		-	(1,485)	-
Disposals		(43)	(55)	-
Net book value as at 31 March 1997		<u>2,575</u>	<u>50,300</u>	<u>5,817</u>

	Equipment
	£000
Gross replacement cost as at 1 April 1996	1,017
Indexation	26
Additions - purchased	531
Transfers	251
Disposals	(157)
Gross replacement cost as at 31 March 1997	<u>1,668</u>

Depreciation as at 1 April 1996	660
Indexation	17
Depreciation provided during the year	131
Disposals	(151)
Depreciation as at 31 March 1997	<u>657</u>

Net book value as at 1 April 1996	357
Net book value as at 31 March 1997	1,011

All tangible fixed assets were purchased.

Debtors	5		£000
		Amounts falling due within one year:	
		National Health Service debtors	40
		Other debtors	517
		Prepayments and accrued income	31
			<u>588</u>

Creditors:	6				£000
Amounts falling due within one year		National Health Service creditors			299
		Non-NHS trade creditors - revenue			608
		Non-NHS trade creditors - capital			1,930
		Tax and social security			779
		Patients' money			84
		Payments received on account			280
		Other creditors			157
					<u>4,137</u>
<hr/>					
Provisions for liabilities and charges	7		Pensions relating to staff	Other	Total
			£000	£000	£000
		At 1 April 1996	728	-	728
		Arising during the year	211	310	521
		Utilised during the year	(118)	-	(118)
		At 31 March 1997	<u>821</u>	<u>310</u>	<u>1,131</u>
<hr/>					
Capital account and reserves	8	8.1 Capital account			£000
		At 1 April 1996			50,751
		Additions			6,792
		Depreciation			(1,616)
		Disposals			(104)
		At 31 March 1997			<u>55,823</u>
		8.2 Revaluation reserve			£000
		At 1 April 1996			-
		Revaluation of fixed assets			1,950
		At 31 March 1997			<u>1,950</u>
		8.3 Income and expenditure reserve			£000
		At 1 April 1996			2,457
		Other			(12)
		At 31 March 1997			<u>2,445</u>
<hr/>					
Reconciliation of operating surplus to net cash inflow from operating activities	9				£000
		(Increase) in stocks			(16)
		(Increase) in debtors			(170)
		Increase in creditors and other provisions			235
		Net cash inflow from operating activities			<u>49</u>

Analysis of change in cash during the year	10		£000
		Opening Balance at 1 April 1996	45
		Cashflow	61
		Closing Balance at 31 March 1997	<u>106</u>

Capital commitments 11 Capital commitments contracts at the balance sheet date were £626,242.

Contingent liabilities 12 At 31 March 1997, an industrial tribunal claim with a potential value of £158,000 had been made against the Authority. This claim is disputed and until it is resolved the Authority's financial liability, if any, cannot be determined. The estimated potential future liability of early retirement costs is £1,073,653. No provision has been made in the 1996-97 accounts for these items.

The summarised accounts direction is at page 235.

United Kingdom Transplant Support Service Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 227 to 234 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 230 and 231.

Respective responsibilities of Accounting Officer and Auditors

As described on page 225 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the United Kingdom Transplant Support Service Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

Continuing Operations

	Notes	£000	1995-96 £000
Income			
Department of Health funding		4,537	4,498
Operating income	2	1,470	988
Capital charges transfer	5	631	592
		<u>6,638</u>	<u>6,078</u>
Expenditure			
Staff costs	3	2,285	1,982
Other operating costs	4	3,557	3,691
Capital charges	5	631	592
		<u>6,473</u>	<u>6,265</u>
Surplus/(deficit) for the Financial Year		<u>165</u>	<u>(187)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	£000	1995-96 £000
Surplus/(deficit) for the financial year	165	(187)
Unrealised surplus on the revaluation of fixed assets	179	335
Other movements on the capital account	-	(148)
Total recognised gains for the financial year	<u>344</u>	<u>-</u>

The notes at pages 230 to 234 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Tangible Fixed Assets	7	4,847	4,874
Current Assets			
Stocks		8	7
Debtors	8	479	519
Cash at bank and in hand	13	21	13
		<u>508</u>	<u>539</u>
Current Liabilities			
Creditors: amounts falling due within one year	9	<u>(31)</u>	<u>(227)</u>
Net Current Assets		<u>477</u>	<u>312</u>
Total Assets less Current Liabilities		<u>5,324</u>	<u>5,186</u>
Financed by:			
Capital Account	10	4,454	4,660
Revaluation reserve	11	393	214
Balance due to Department		<u>477</u>	<u>312</u>
		<u>5,324</u>	<u>5,186</u>

The notes at pages 230 to 234 form part of this account

Alan Langlands
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Operating activities			
Net cash inflow/(outflow) from operating activities	12	8	(16)
Capital expenditure			
Payments to acquire tangible fixed assets		(135)	(268)
Receipts from sale of tangible fixed assets		-	22
Net cash (outflow) before financing		<u>(127)</u>	<u>(262)</u>
Financing			
Departmental funding for capital expenditure		116	246
Grants from National Sponsors		19	-
Increase/(decrease) in cash	13	<u>8</u>	<u>(16)</u>

The notes at pages 230 to 234 form part of this account

Notes to the Account

Accounting policies 1.1 Accounting Convention

This account has been prepared under the historical cost convention, modified to reflect changes in the value of fixed assets and in accordance with standard accounting practice for the NHS approved by the Secretary of State and the accounts direction issued by the Treasury.

1.2 Income Allocations

The main source of funding for the Authority is cash advances within an approved cash limit from the Department of Health's Class XI Vote 1 Appropriation Account: these advances are recorded in the account on a receipts basis rather than on an accruals basis.

1.3 Fixed Assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of services. The interest rate applied to capital charges in the financial year 1996-97 was 6%.

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Fixed assets are valued as follows:

- i) land, buildings, installations and fittings held for operational use are stated at their depreciated replacement cost. Surplus land and buildings are stated at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. The last valuation was made on 1 April 1995. Between valuations, an appropriate index is applied to the assets;
- ii) equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount;
- iii) assets in the course of construction are valued at current cost, including indexation.

c. Depreciation

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

- i) land and assets in the course of construction are not depreciated;
- ii) buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer.

1.4 Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Work in progress comprises goods in intermediate stages of production.

1.5 Losses and Special Payments

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

1.6 Pension Contributions

The cost of employer pensions contributions to the NHS Superannuation and other schemes is charged to the income and expenditure account.

1.7 Research and Development

Research and development expenditure is written off as it is incurred.

Operating Income	2	1995-96	
		£000	£000
		728	695
		742	293
		<u>1,470</u>	<u>988</u>

Staff costs	3	1995-96	
		£000	£000
		2,062	1,788
		158	141
		65	53
		<u>2,285</u>	<u>1,982</u>

The average number of employees during the year was 103 (1995-96: 104).

The number of senior employees receiving remuneration as at 31 March were:

Range £	1995-96	
	Number	Number
40,000 to 50,000	2	1
50,001 to 60,000	1	1
60,001 to 70,000	1	1

Other operating costs	4		1995-96 £000	1995-96 £000
Staff related expenditure			100	134
Laboratory costs			264	200
Personnel			42	33
Administration			152	166
Computing costs and IT strategy			396	497
Telephone and postage			35	39
Premises: running and equipping			400	424
Professional services			254	159
Legal, losses and pensions			101	47
Grant: UB DOTS			171	168
Relocation			46	27
Other			408	175
			<u>2,369</u>	<u>2,069</u>
<i>Agency activities:</i>				
Donor reimbursement scheme			585	622
Organ donor register			137	560
CTS eye bank			460	440
Other			6	-
			<u>3,557</u>	<u>3,691</u>

Capital charges 5 The treatment of fixed assets is set out in note 1.3. The effect of the capital charges on the Authority's finances is neutral, with a compensating credit being shown in the Income and Expenditure account. The charges included in the Income and Expenditure account for 1996-97 total £631,000 (1995-96: £592,000) of which £337,000 relates to depreciation, £290,000 to interest, and £4,000 to the loss on the disposal of fixed assets.

Public Sector Payment Policy – Measure of compliance 6 The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's prompt payment code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 93%, (1995-96 77%) representing 95% (1995-96 84%) by value, were paid within the 30 days target.

Fixed assets	7	Land	Building	Equipment	Assets under construction	Total
		£000	£000	£000	£000	£000
		536	3,745	1,202	31	5,514
		10	143	31	1	185
		-	-	116	25	141
		-	-	(19)	-	(19)
		<u>546</u>	<u>3,888</u>	<u>1,330</u>	<u>57</u>	<u>5,821</u>
		-	212	428	-	640
		-	4	2	-	6
		-	105	232	-	337
		-	-	(9)	-	(9)
		<u>-</u>	<u>321</u>	<u>653</u>	<u>-</u>	<u>974</u>
		<u>546</u>	<u>3,567</u>	<u>677</u>	<u>57</u>	<u>4,847</u>
		<u>536</u>	<u>3,533</u>	<u>774</u>	<u>31</u>	<u>4,874</u>
<hr/>						
Debtors	8					31 March 1996
					£000	£000
					103	84
					194	200
					182	235
					<u>479</u>	<u>519</u>
<hr/>						
Creditors: Amounts falling due within one year	9					31 March 1996
					£000	£000
					17	149
					-	61
					2	3
					<u>12</u>	<u>14</u>
					<u>31</u>	<u>227</u>
<hr/>						
Capital account	10					£000
						4,660
						141
						(10)
						(337)
						<u>4,454</u>

Revaluation reserve	11				£000
		At 31 March 1996			214
		Indexation			179
		At 31 March 1997			<u>393</u>
<hr/>					
Reconciliation of operating surplus/(deficit) to net cash outflow from operating activities	12				1995-96 £000
		Operating surplus/(deficit)	165		(187)
		(Increase) in stocks	(1)		(2)
		Decrease in debtors	40		46
		(Decrease)/increase in creditors	<u>(196)</u>		<u>127</u>
		Net cash inflow/(outflow) from operating activities	<u>8</u>		<u>(16)</u>
<hr/>					
Analysis of changes in cash	13		As at 31 March 1996 £000	Cash flows £000	As at 31 March 1997 £000
		Cash at bank and in hand	13	8	21
<hr/>					
Capital commitments	14	There are no contractual commitments at 31 March 1997.			

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

Dental Practice Board and Special Health Authorities

1. The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of each and every Special Health Authority and the Dental Practice Board. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

Basis of Preparation

2. The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts and shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs, and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Form and Content

3. The summarised accounts of the Special Health Authorities and the Dental Practice Board shall, with the exceptions noted below, comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Special Health Authorities and the Dental Practice Board. For the year ended 31 March 1997 only, the Health Education Authority account shall include a statement of working balances instead of a balance sheet. For the year ended 31 March 1997 and subsequent years, the Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances.

4. For the financial year ended 31 March 1997, the summarised accounts of the Special Health Authorities and the Dental Practice Board shall, with the following exceptions, present fairly the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses, and cashflows

during the year. The Health Education Authority account shall present fairly the working balances for the financial year. The Dental Vocational Training Authority account shall properly present the receipts and payments, and balances of the Authority.

5. For financial years subsequent to that ended 31 March 1997, the summarised accounts of the Special Health Authorities and the Dental Practice Board shall give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses, and cashflows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority.

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

Miscellaneous

7. The direction shall be reproduced as an appendix to the published accounts.

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

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

Accounting Standards

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

Schedule 2

ADDITIONAL REQUIREMENTS

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

**Health Education Authority and the
Microbiological Research Authority,
providing other services in England**

Foreword

- 1 These accounts have been prepared by the Department of Health under section 98 of the National Health Service Act 1977 in a form directed by the Treasury, for transmission on or before 30 November to the Comptroller and Auditor General for examination and certification. This section also provides for the accounts of the Dental Practice Board and special health authorities to be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales and affords the Comptroller and Auditor General access to the reports of the Commission's appointed auditors on the accounts of individual authorities and to those accounts and related records.

Health Education Authority and the Microbiological Research Authority providing central services for the health authorities and other services in England.

- 2 Central services have been provided by the following bodies:

(i) The Health Education Authority.

The Health Education Authority was established on 1 April 1987 as a special health authority under section 11 of the NHS Act 1977 to replace the former Health Education Council. It has a statutory remit to provide information and advice about health directly to the public; support health professionals and others who provide health education to the public; and advise the Secretary of State on matters relating to health education. It designs and manages health education programmes, commissions materials, gives policy advice, and commissions research to advance the scientific basis of health education. The expenses of the Authority were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Class XI, Vote 2.

The Authority's business is increasingly provided to the Department of Health on a contract basis. In 1996-97, Department of Health contracts totalling £987,000 were obtained under competitive tender. The Authority also seeks contracts from other agencies and organisations.

The Authority's Income and Expenditure deficit for the year amounted to £1.844 million. Taking into account the retained surplus brought forward from 1995-96 the retained deficit carried forward was reduced to £0.392 million. The Authority has plans to return to a retained surplus by the end of the 1998-99 financial year.

Under the Authority's existing accounting arrangements, capital expenditure is recorded in the year in which it is incurred. No Fixed Assets or any provision for depreciation are recorded in the Authority's accounts. However, the Authority will prepare full accounts, including fixed assets from 1997-98.

Since the end of the 1996-97 financial year, the Authority has entered into a contractual agreement to relocate to new accommodation (Trevelyan House) in central London from December 1997.

(ii) The Microbiological Research Authority.

The Microbiological Research Authority was established as a Special Health Authority on 1 April 1994 under section 11 of the NHS Act 1977 to manage the Centre for Applied Microbiology and Research (CAMR) which previously formed

part of the Public Health Laboratory Service. It is required to contribute to the health of the UK population by conducting research on specified microbiological hazards with a view to the development and production of effective diagnostic, prophylactic and therapeutic products. Its funding is mainly derived through income from contracts for research, production and other services with separate funding for particular research and other purposes being defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class XI, Vote 2.

During 1996-97, the Authority achieved compliance requirements of the international standard BS EN ISO 9001. The Authority also entered into a collaborative venture with the Swedish company Actinova Ltd, which would allow the opportunity for the commercial development of some of its work.

The Authority's operating income of £17.83 million was 4% higher than the previous twelve months, despite a decrease of 41% in defence related revenue. The operating deficit after charging depreciation of £1.92 million and £0.33 million on self-funded research was £0.92 million compared with a deficit of £1.59 million in the previous year.

The Authority's 1996-97 accounts include exceptional costs incurred in the transfer of site maintenance and support services to the Defence Evaluation Research Agency's Site Services Division. Costs were also incurred as part of a major re-organisation of the Authority's management structure intended to enhance the management of customer focused projects.

The Authority's capital expenditure in the year totalled £3.3 million. This included new laboratory facilities for AIDS vaccine research, "clean steam" generators in the fermentation and biopharmaceutical production plants and replacement standby electrical generators.

The Department of Health, in consultation with other government departments, is currently undertaking a review of the future role of the Authority.

- 3 Health authorities have power under section 90 of the National Health Service Act 1977 to accept, hold and administer any property on trust for all or any purposes relating to the Health Service. Under section 91 of the above Act any sum so paid to the appropriate authority shall, so far as practicable, be applied by them for the purpose specified in the trust instrument. The annual accounts for the funds held on trust by the Health Education Authority have been incorporated into a note within the Authority's own summarised accounts.

G A Hart
Accounting Officer

30 November 1997

Health Education Authority

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

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

In preparing the accounts the Secretary of State is required to:

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

The Treasury have appointed the Accounting Officer for the Department of Health as the Accounting Officer for the summarised accounts of the Health Education Authority. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for keeping proper records, are set out in the Accounting Officer's memorandum issued by the Treasury and published in "Government Accounting".

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

I certify that I have audited the financial statements on pages 247 to 253 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 249.

Respective responsibilities of Accounting Officer and Auditors

As described on page 245 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net current liabilities of the Health Education Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Income			
Advances from the Department of Health	2	34,242	38,502
Other	3	2,412	2,005
		36,654	40,507
Expenditure			
Revenue	4	38,498	41,268
Excess of expenditure over income	6	(1,844)	(761)

There were no other recognised gains or losses for the year.

All operations are continuing.

Statement of Working Balances as at 31 March 1997

		£000	Balances at 31 March 1996 £000
Current Assets			
Stock	7	1,883	1,295
Debtors	8	2,812	2,249
Cash and bank balances	11	655	3,545
		5,350	7,089
Liabilities			
Creditors	9	5,742	5,636
Current assets less liabilities	6	(392)	1,453

The notes at pages 249 to 253 form part of this account

G A Hart
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Note	£000	1995-96 £000
Excess of expenditure over income		(1,844)	(761)
Increase in stocks		(588)	(732)
(Increase)/decrease in debtors		(563)	58
Increase in creditors		<u>105</u>	<u>2,300</u>
Net cash (outflow)/inflow from operating activities	11	<u>(2,890)</u>	<u>865</u>

The notes at pages 249 to 253 form part of this account

Notes to the Account

Accounting policies 1.1 Accounting convention

This account has been prepared in accordance with the accounting standards and policies for the NHS approved by the Secretary of State and with accounts directions issued by the Treasury. Where relevant and applicable, these take cognisance of the accounting standards issued by the Accounting Standards Board. There are however certain departures from the accruals concept:

- i. The main source of funding for the Authority - cash advances from the Department within an approved cash limit - is recorded in the account on a receipts rather than an accruals basis.
- ii. Capital expenditure is charged to the Income and Expenditure Account in the year it is incurred and there is no record in a balance sheet of capital assets, nor is there any provision for depreciation of such assets in the account.

1.2 Income

Under arrangements approved by the Treasury, the Authority is permitted to retain certain items of income (direct credits) which are netted against expenditure and are not treated as income. These items include recoveries which the Department of Health and Treasury shall from time to time specify and lump sum contributions made from trust funds towards the general revenue expenditure.

1.3 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.4 Debtors and creditors

Debtors and creditors are assessed on the basis of goods and services supplied or received on or before 31 March 1997 for which payment has not been received or made by this date.

1.5 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings. Certain losses would have been made good through insurance cover had the Authority not been bearing its own risks and in that case the insurance premiums would have been included as normal revenue expenditure.

1.6 Government Grants

Government grants receivable for revenue expenditure are credited to income in the year to which they relate. No capital grants were received this year.

Advances from the Department of Health

2

		1995-96
	£000	£000
Advances from Class XI, Vote 2	34,242	38,472
Advances from Class XV, Northern Ireland	-	30
	<u>34,242</u>	<u>38,502</u>

Other income	3	1995-96	
		£000	£000
Sexual Health		184	82
Look after your heart		85	39
Smoking		11	78
Immunisation		29	10
Alcohol		3	14
Cancer		96	146
Nutrition		15	52
Family and Child Health		209	53
Research and Evaluation		99	24
Primary Health Care and Workplace Settings		497	519
Drugs		40	-
Folic Acid		5	28
Mental Health		24	72
Other		1,115	888
		<u>2,412</u>	<u>2,005</u>

Revenue expenditure	4	1995-96	
		£000	£000
Sexual Health		1,745	4,358
Smoking		5,093	6,007
Immunisation		1,606	1,243
Alcohol		535	550
Cancer		630	1,007
Pharmacy Healthcare		-	251
Nutrition		383	500
Family and Child Health		207	955
Accidents		22	131
International		201	279
Communications		4,191	2,529
Research and Evaluation		2,015	1,030
Primary Health Care and Workplace		923	1,833
Appointed auditor's remuneration		45	45
Other Settings		1,607	1,912
Staff		7,673	6,105
General Support Costs		2,882	4,423
Physical Activity		2,937	2,829
Drugs		4,735	3,800
Folic Acid		691	915
Mental Health		377	566
		<u>38,498</u>	<u>41,268</u>

Staff Costs included in the above:	1995-96	
	£000	£000
Salaries and wages	6,905	5,491
Social Security Costs	593	472
Other pension Costs	175	142
	<u>7,673</u>	<u>6,105</u>

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

Range (£)	1996-97	1995-96
40,000-50,000	9	8
50,001-60,000	3	7
60,001-70,000	4	-
70,001-80,000	-	1
80,001-90,000	1	-
	<u>17</u>	<u>16</u>

The average number of employees during the year was 261.

Authority Members' Remuneration

Ten members (nine members in 1995-96) received emoluments in the range £0-£5,000.

In addition, other emoluments were:

	£000	£000
Fees of authority members	46	40

The emoluments of the Chairman were £23,166 (1995-96 £29,893) and the highest paid member £84,767 (1995-96 £83,531).

Pension costs 5 The Authority participates in the NHS pension scheme. This is a statutory, defined benefits scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No 300). Under these regulations the Authority is required to pay an employer's contribution, currently 4% of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Deficit for the year 6 In 1996-97 the Authority's income fell short of budget by £2.7 million. This has resulted in a deficit on the Income and Expenditure Account of £1.844 million. The 1996-97 income deficit has resulted in a Retained Deficit position of £0.392 million. The Authority's budget for 1997-98 shows a break-even position and the Authority plans to return to a Retained Surplus position by the end of the 1998-99 financial year by means of strict financial planning, forecasting and monitoring.

Stock	7		31 March			
				1996		
			£000	£000		
		Publications	1,933	1,345		
		Provisions for write-off	(50)	(50)		
			<u>1,883</u>	<u>1,295</u>		
<hr/>						
Debtors	8		31 March			
				1996		
			£000	£000		
		Trade and sundry Debtors	650	417		
		Provision for bad debts	-	(102)		
		Loans	96	85		
		VAT	1,373	1,536		
		Prepayments – within 1 year	627	313		
Prepayments – within 2-3 years	66	-				
			<u>2,812</u>	<u>2,249</u>		
<hr/>						
Creditors and accruals	9		31 March			
				1996		
			£000	£000		
		Creditors	5,449	5,197		
Accruals	293	439				
			<u>5,742</u>	<u>5,636</u>		
<hr/>						
Operating leases	10	Annual commitments under non-cancellable operating leases are:				
			1995-96			
			£000	£000		
		Land and buildings operating leases which expire:				
		Within 1 year	375	52		
		Between 1 and 5 years	349	-		
		After 5 years	793	672		
			<u>1,517</u>	<u>724</u>		
		Other operating leases which expire:				
		Within 1 year	13	-		
Between 1 and 5 years	44	41				
After 5 years	-	16				
	<u>57</u>	<u>57</u>				

Analysis of change in cash during the year	11		1995-96	
			£000	£000
		Balance at 31 March 1996	3,545	2,680
		Net cash (outflow)/inflow from operating activities	<u>(2,890)</u>	<u>865</u>
		Balance at 31 March 1997	<u>655</u>	<u>3,545</u>

The balances comprise only cash at bank and in hand. There are no bank overdrafts or short term investments.

Losses **12** There were no material losses in 1996-97.

Public sector payment policy – measure of compliance	13		Number	£000
		Total sample bills paid 1996-97	700	5,003
		Total sample bills paid within target (30 days)	501	4,091
		Percentage of sampled bills paid within target	71.6%	81.7%

**Funds held
on Trust** **14** The Health Education Authority holds funds held on trust. Donations of £1,000 (1995-96 £1,349) and dividends and interest of £4,953 (1995-96 £5,393) were received in 1996-97.

The balance of the funds held on trust at 31 March 1997 was £103,113 (1995-96 £97,160).

The summarised accounts direction is at page 269.

Microbiological Research Authority

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

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

In preparing the accounts the Secretary of State is required to:

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

The Treasury have appointed the Accounting Officer for the Department of Health as the Accounting Officer for the summarised account of the Microbiological Research Authority. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for keeping proper records, are set out in the Accounting Officer's memorandum issued by the Treasury and published in "Government Accounting".

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

I certify that I have audited the financial statements on pages 259 to 268 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 263 and 264.

Respective responsibilities of Accounting Officer and Auditors

As described on page 257 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements. It is my responsibility to form an independent opinion, based on my audit, on those statements and to report my opinion to you.

Basis of opinion

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

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

Opinion

In my opinion the financial statements present fairly the net assets of the Microbiological Research Authority at 31 March 1997 and its income, expenditure, total recognised gains and losses, and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

John Bourn
Comptroller and Auditor General

8 July 1998

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

Income and Expenditure Account for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Income			
Income from activities	2	12,077	11,730
Department of Health revenue funding		4,635	4,498
Transfer from deferred government grant		1,123	923
		<u>17,835</u>	<u>17,151</u>
Expenditure			
Staff costs	4	8,598	8,910
Other operating charges	3	8,242	8,064
Depreciation	5	1,915	1,764
		<u>18,755</u>	<u>18,738</u>
Operating deficit		(920)	(1,587)
Loss on fixed asset disposal		(11)	(36)
Gain on asset revaluation		75	-
Notional interest on capital		(1,977)	(1,938)
Interest receivable		69	91
		<u>(2,764)</u>	<u>(3,470)</u>
Deficit on ordinary activities		(2,764)	(3,470)
Write back of capital interest		1,977	1,938
		<u>(787)</u>	<u>(1,532)</u>
Deficit for the year		(787)	(1,532)
Transfer to capital grant		(2,101)	-
		<u>(2,888)</u>	<u>(1,532)</u>
Retained deficit for the year		(2,888)	(1,532)
Transfer from revaluation reserve		777	725
Retained deficit brought forward		(2,536)	(1,729)
		<u>(4,647)</u>	<u>(2,536)</u>
Accumulated income and expenditure reserve		(4,647)	(2,536)

All operations are continuing.

The notes at pages 263 to 268 form part of this account

Statement of Total Recognised Gains and Losses for the year ended 31 March 1997

	1995-96	1996-97
	£000	£000
Deficit for the financial year	(787)	(1,532)
Unrealised surplus on the revaluation of fixed assets	<u>971</u>	<u>116</u>
Total recognised gains/(losses) for the financial year	<u>184</u>	<u>(1,416)</u>

The notes at pages 263 to 268 form part of this account

Balance Sheet as at 31 March 1997

	Notes	£000	31 March 1996 £000
Fixed assets	5	30,487	28,020
Current assets			
Stocks and work in progress	7	840	1,487
Debtors and prepayments	8	3,973	4,139
Cash at bank and in hand		193	282
		<u>5,006</u>	<u>5,908</u>
Current liabilities			
Creditors: Amounts falling due within one year	9	<u>(2,428)</u>	<u>(1,071)</u>
Net current assets		<u>2,578</u>	<u>4,837</u>
Total assets less current liabilities		33,065	32,857
Creditors:			
Amounts falling due after more than one year	10	(857)	(484)
Provisions for liabilities and charges	11	<u>(970)</u>	<u>(1,442)</u>
Total net assets		<u>31,238</u>	<u>30,931</u>
Financed by:			
Deferred government grant	12	7,056	6,933
Notional capital grant	1.3d	2,101	-
Capital reserve		14,489	14,489
Revaluation reserve	13	12,239	12,045
Income and expenditure account		<u>(4,647)</u>	<u>(2,536)</u>
		<u>31,238</u>	<u>30,931</u>

The notes at pages 263 to 268 form part of this account

G A Hart
Accounting Officer

30 November 1997

Cash Flow Statement for the year ended 31 March 1997

	Notes	£000	1995-96 £000
Operating activities			
Net cash inflow from operating activities	14	1,943	131
Returns on investments and servicing of finance			
Interest received		69	91
Capital expenditure			
Payments to acquire tangible fixed assets		<u>(3,346)</u>	<u>(2,341)</u>
Net cash outflow before financing		(1,334)	(2,119)
Financing			
Department of Health capital funding		<u>1,245</u>	<u>2,400</u>
(Decrease)/increase in cash	15	<u>(89)</u>	<u>281</u>

The notes at pages 263 to 268 form part of this account

Notes to the Account

Accounting policies 1.1 Accounting convention

This account has been prepared under the historical cost convention modified to reflect changes in the value of fixed assets in accordance with the published Standard Accounting Practices for the NHS approved by the Secretary of State, and the accounts direction issued by the Treasury.

1.2 Income allocations

Fundings from the Department of Health (Class XI, Vote 2) within approved cash limits are recorded in the accounts on an accruals basis. Those for capital expenditure are credited to a deferred government grant account and released by equal annual amount to the income and expenditure account over a 10 year period which is an estimate of the expected useful lives of the relevant assets.

1.3 Fixed assets

a. Capitalisation

All tangible assets which have a value exceeding £5,000 and an estimated useful life of one year or more are capitalised.

b. Valuation

Fixed assets are valued as follows:

- i A valuation of the Authority's land and buildings was carried out at 31 March 1995 by the Valuation Office Agency. This valuation was prepared on the depreciated replacement cost of the assets and forms the basis of the valuation included in this account.
- ii Plant, machinery, vehicles and computers are valued annually and adjustments made for technological obsolescence.

c. Depreciation

Depreciation is provided on all fixed assets, other than freehold land, at rates calculated to write-off the cost or valuation, to the estimated residual value of each asset on a straight line method from the date of the acquisition, as follows:

Buildings	Average of 20 years
Scientific equipment	5 – 15 years
Plant and machinery	5 – 15 years
Vehicles	7 years
Office and IT equipment	5 years

d. Notional capital grant

MRA is a gross funded body with all capital expenditure financed from capital grants. In 1996-97 the approved capital acquisitions exceeded the capital grant received directly from the Department of Health, therefore an additional capital grant was appropriated from internal funds.

The transfer to "notional capital grants" represents the excess value of assets capitalised in the year over the value of specific capital grants received in the year. The notional grant is released into the Income and Expenditure Account over the lives of the relevant assets with no release in the year of acquisition.

1.4 Stocks and work in progress

Stocks are valued at the lower of cost or net replacement cost if materially different, and net realisable value.

1.5 Research and development

Expenditure on research and development is written off in the year in which it is incurred.

1.6 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings.

Income from activities	2	1995-96	
		£000	£000
Products		3,691	3,489
Royalties		2,233	1,637
Grants and research contracts		5,117	5,069
Services and other income		1,036	1,535
		<u>12,077</u>	<u>11,730</u>

Other operating charges include	3	1995-96	
		£000	£000
Retirement and reorganisation costs*		851	-
(Write back)/provision for contract losses		(772)	772
Increase in insurance provision		300	335
Lease charges		69	64
Auditor's remuneration		36	29

*Costs are offset by £300,000 funding from Department of Health included in the revenue funding.

Staff costs	4	1995-96	
		£000	£000
Salaries and wages		7,668	7,959
Social security costs		607	633
Other pension costs		279	282
Non-executive Board members' emoluments and social security costs		44	36
		<u>8,598</u>	<u>8,910</u>

The average number of employees (excluding non-executive directors) during the year was 390 (1995-96 426).

The employees of the Authority are members of the NHS Superannuation Scheme. The scheme is contributory with employees contributing 6% and employer 4%. The contributions made by the Authority are shown under other pension costs.

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

Range £s	1995-96	
	Number	Number
40,000 – 50,000	20	13
50,001 – 60,000	5	4
60,001 – 70,000	1	–
70,001 – 80,000	–	1

Board Members' remuneration:

	1995-96	
	£000	£000
Non-executive directors' fees	44	36
Other remuneration	6	9
	<u>50</u>	<u>45</u>

Executive directors' remuneration:

Salaries	140	109
Pensions Contributions	5	4
	<u>145</u>	<u>113</u>

The Chairman's emoluments were £17,767 (1995-96 £16,050)

The total remuneration of the outgoing Chief Executive, including contributions to the National Health Service's Superannuation Scheme (of which he is an ordinary member), was £62,418 (1995-96 £79,926). The total annual remuneration of the incoming Chief Executive, including contributions to the National Health Services Superannuation Scheme (of which he is an ordinary member), was £30,900.

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

Range £s	1995-96	
	Number	Number
up to 5,000	2	1
5,001 – 10,000	3	2
10,001 – 15,000	–	1
25,001 – 30,000	–	1
45,001 – 50,000	1	–

Fixed assets	5	Land and Buildings £000	Plant and Machinery £000	Vehicles £000	Computers and Office £000	Assets under Construction £000	Total £000
Cost/valuation							
At 31 March 1996		46,809	10,040	71	907	1,350	59,177
Additions		-	-	-	-	3,348	3,348
Transfers		2,892	334	-	-	(3,226)	-
Reclassification		-	106	6	-	-	112
Disposals		-	(245)	(12)	(210)	-	(467)
Revaluation		1,802	267	2	24	-	2,095
At 31 March 1997		<u>51,503</u>	<u>10,502</u>	<u>67</u>	<u>721</u>	<u>1,472</u>	<u>64,265</u>
Depreciation							
At 31 March 1996		23,466	6,930	52	709	-	31,157
Amount in							
current period		1,325	533	6	51	-	1,915
Reclassification		-	37	-	-	-	37
Disposals		-	(233)	(12)	(210)	-	(455)
Revaluation		917	187	1	19	-	1,124
At 31 March 1997		<u>25,708</u>	<u>7,454</u>	<u>47</u>	<u>569</u>	<u>-</u>	<u>33,778</u>
Net book value							
At 31 March 1996		<u>23,343</u>	<u>3,110</u>	<u>19</u>	<u>198</u>	<u>1,350</u>	<u>28,020</u>
At 31 March 1997		<u>25,795</u>	<u>3,048</u>	<u>20</u>	<u>152</u>	<u>1,472</u>	<u>30,487</u>

Items described above as "reclassified" represent the net outcome of the asset register reconciliation exercise during the year.

All land and buildings owned by the Authority are freehold.

Historic cost of revalued assets:

	Revalued Amount £000	Historic Cost £000
Land and buildings:		
Cost or valuation	51,503	26,194
Depreciation to date	<u>(25,708)</u>	<u>(12,279)</u>
Net book value	<u>25,795</u>	<u>13,915</u>
Other assets:		
Cost or valuation	11,290	7,542
Depreciation to date	<u>(8,070)</u>	<u>(4,690)</u>
Net book value	<u>3,220</u>	<u>2,852</u>

Capital commitments	6			1995-96
			£000	£000
		Contracted	833	1,132
<hr/>				
Stocks and work in progress	7			1995-96
			£000	£000
		Raw materials	540	340
		Work in progress	300	368
		Finished goods	-	779
			<u>840</u>	<u>1,487</u>
<hr/>				
Debtors and prepayments	8			1995-96
			£000	£000
		Sundry trade and other debtors	3,023	1,823
		Prepayments	950	2,316
			<u>3,973</u>	<u>4,139</u>
<hr/>				
Creditors: Amounts falling due within one year	9			1995-96
			£000	£000
		Trade creditors	300	6
		Income tax and social security	286	305
		Accruals and deferred income	1,842	760
			<u>2,428</u>	<u>1,071</u>
<hr/>				
Creditors: Amounts falling due after more than one year	10			1995-96
			£000	£000
		Superannuation commitments in respect of former staff	857	484
<hr/>				
Provisions for liabilities and charges	11		Insurance	Losses On Contracts
			£000	£000
		At 31 March 1996	670	772
		Increase in Year	300	-
		Write-Back in Year	-	(772)
		At 31 March 1997	<u>970</u>	<u>-</u>

Deferred government grant	12		1995-96		
			£000	£000	
		Balances brought forward	6,933	5,456	
		Grant received during the year	1,245	2,400	
		Released to income and expenditure account	(1,123)	(923)	
		Balancing adjustment	1	-	
			<u>7,056</u>	<u>6,933</u>	
<hr/>					
Revaluation reserve	13		1995-96		
			£000	£000	
		Revaluation reserve at 31 March 1996	12,045	12,654	
		Surplus on revaluation	971	116	
		Disposals	-	(6)	
		Transfer of additional depreciation on revalued assets	(777)	(719)	
		Revaluation reserve at 31 March 1997	<u>12,239</u>	<u>12,045</u>	
<hr/>					
Reconciliation of operating deficit to net cash inflow from operating activities	14		1995-96		
			£000	£000	
		Operating deficit	(856)	(1,623)	
		Depreciation	1,915	1,764	
		Net transfer from deferred government grant reserve	(1,123)	(923)	
		Insurance provision	300	335	
		Losses on sale of fixed assets	11	36	
		Net gain on asset reconciliation	(75)	-	
		Provision for losses on contracts	(772)	772	
		Decrease in stocks	647	631	
		Decrease/(increase) in debtors	166	(758)	
				Increase/(decrease) in creditors	1,730
		Net cash inflow from operating activities	<u>1,943</u>	<u>131</u>	
<hr/>					
Analysis of changes in cash	15		31 March	Cash	31 March
			1996	Flows	1997
			£000	£000	£000
		Cash at bank and in hand	282	(89)	193

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

Dental Practice Board and Special Health Authorities

1. The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of each and every Special Health Authority and the Dental Practice Board. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

Basis of Preparation

2. The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts and shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs, and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Form and Content

3. The summarised accounts of the Special Health Authorities and the Dental Practice Board shall, with the exceptions noted below, comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Special Health Authorities and the Dental Practice Board. For the year ended 31 March 1997 only, the Health Education Authority account shall include a statement of working balances instead of a balance sheet. For the year ended 31 March 1997 and subsequent years, the Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances.

4. For the financial year ended 31 March 1997, the summarised accounts of the Special Health Authorities and the Dental Practice Board shall, with the following exceptions, present fairly the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses, and cashflows during the year. The Health Education Authority account shall present fairly the working balances for the financial year. The Dental Vocational Training Authority account shall properly present the receipts and payments, and balances of the Authority.

5. For financial years subsequent to that ended 31 March 1997, the summarised accounts of the Special Health Authorities and the Dental Practice Board shall give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses, and cashflows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority.

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

Miscellaneous

7. The direction shall be reproduced as an appendix to the published accounts.

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

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

Accounting Standards

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

Schedule 2

ADDITIONAL REQUIREMENTS

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

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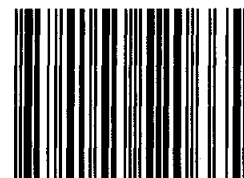
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