

## Operating Cost Statement for the year ended 31 March 2003

### Continuing Operations

	Notes	2002-03 £000	Restated 2001-02 £000
Programme costs	2	800,842	776,442
Operating income	4	(375,938)	(335,812)
<b>Net operating cost</b>		<u>424,904</u>	<u>440,630</u>
<b>Net resource outturn</b>	3	<u>424,904</u>	<u>440,630</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

	2002-03 £000	2001-02 £000
Prior Period Adjustment (Debtors)	(158)	0
<b>Recognised gains and losses for the financial year</b>	<u>(158)</u>	<u>0</u>

*The notes at pages 5 to 8 form part of this account.*

## Balance Sheet as at 31 March 2003

		31 March 2003 £000	Restated 31 March 2002 £000
	Notes		
<b>Current assets</b>			
Debtors	5	84,752	83,614
Cash at bank and in hand	6	849	7
		<u>85,601</u>	<u>83,621</u>
<b>Creditors: amounts falling due within one year</b>	7	<b>(131,432)</b>	<b>(130,574)</b>
<b>Total net assets</b>		<u><b>(45,831)</b></u>	<u><b>(46,953)</b></u>
 <b>Taxpayers' equity</b>			
General Fund	9	<b>(45,831)</b>	<b>(46,953)</b>
		<u><b>(45,831)</b></u>	<u><b>(46,953)</b></u>

*The notes at pages 5 to 8 form part of this account.*

Signed:

Date:

Accountable Officer

## Cash Flow Statement for the year ended 31 March 2003

	Notes	2002-03 £000	2001-02 £000
<b>Net cash outflow from operating activities</b>	10	<b>425,276</b>	436,548
<b>Financing</b>			
Net Parliamentary funding		<b>426,118</b>	436,555
<b>(Increase)/decrease in cash in the period</b>	6	<b><u>(842)</u></b>	<b><u>(7)</u></b>

*The notes at pages 5 to 8 form part of this account.*

## Notes to the Account

**Accounting Policies** 1 The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting Convention

This account is prepared under the historical cost convention.

### Acquisitions and Discontinued Operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one NHS body to another. From 1 January 2003 the responsibility for collecting prescription charges not paid at source passed to the NHS Counter Fraud and Security Management Services, NHSCFSMS. Any income collected since that date will be shown in their accounts. Debtors representing uncollected patient charges at 31 December 2002 have been transferred to the NHSCFSMS. These were valued at £92k.

### 1.2 Income

Income is accounted for applying the accruals convention. The main source of funding for the Authority's Pharmaceutical Services is Parliamentary grant from the Department of Health (Class II vote I) within an approved cash limit, which is credited to the general fund.

Operating income in the Pharmaceutical accounts is income due in respect of patient prescription charges and from the sale of prepayment certificates, PPCs. The Authority started to sell PPCs from 1 October 2002 when the function was transferred from Health Authorities.

### 1.3 Taxation

The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading.

### 1.5 Fixed Assets

There are no fixed assets associated with the Pharmaceutical services accounts

### 1.7 Stocks and work in progress

There are no stock or work in progress associated with the Pharmaceutical Services accounts.

### 1.8 Losses and Special Payments

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

### 1.9 Foreign exchange

There were no transactions denominated in a foreign currency.

### 1.10 Prior period adjustment

There has been a prior period adjustment of £158k to reflect the revised assumption that not all of the debtors raised at 31 March 2002 were valid. Further evidence has suggested that only £81k of the £239k would be deemed to be a valid debt. This overstated the income and debtors in 2001-02 by £158k. The revenue resource limit has been adjusted accordingly.

<b>Programme Costs</b>	<b>2</b>		<b>2002-03</b>	2001-02
			<b>£000</b>	£000
		Fees and on costs	<b>760,457</b>	740,535
		Local authorised payments	<b>40,385</b>	35,907
			<b>800,842</b>	<b>776,442</b>
<b>Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit</b>	<b>3</b>		<b>2002-03</b>	2001-02
			<b>£000</b>	£000
		Net operating cost	<b>424,904</b>	440,472
		Prior period adjustment	<b>0</b>	158
		Net resource outturn	<b>424,904</b>	<b>440,630</b>
		Revenue resource limit	<b>424,904</b>	440,630
			<b>0</b>	<b>0</b>
<b>Operating Income</b>	<b>4</b>	Operating income analysed by classification and activity, is as follows:		
			<b>2002-03</b>	2001-02
			<b>£000</b>	£000
		Patient charges from source	<b>343,942</b>	335,526
		Patient charges recovered by Compliance Unit	<b>258</b>	286
		Sale of Prepayment Certificates	<b>31,738</b>	0
<b>Total</b>		<b>375,938</b>	<b>335,812</b>	
<b>Debtors</b>	<b>5</b>		<b>31-Mar-03</b>	Restated 31-Mar-02
			<b>£000</b>	£000
		<b>Amounts falling due within one year</b>		
		NHS debtors	<b>0</b>	0
		Provision for irrecoverable debts	<b>0</b>	0
		Other debtors	<b>84,752</b>	83,614
		<b>84,752</b>	<b>83,614</b>	

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PHARMACEUTICAL ACCOUNTS

<b>Analysis of Changes in Cash</b>	<b>6</b>	At 31 March 2002 £000	<b>Change during the year £000</b>	<b>At 31 March 2003 £000</b>
		Cash at OPG	7	475
		Cash at commercial banks and in hand	0	367
			<u>7</u>	<u>842</u>
				<u>849</u>

<b>Creditors: Amounts falling due within one year</b>	<b>7</b>		<b>31 March 2003 £000</b>	31 March 2002 £000
		Pharmaceutical Service Contractors	131,432	130,574
			<u>131,432</u>	<u>130,574</u>

<b>Movements in working capital other than cash</b>	<b>8</b>		<b>2002-03 £000</b>	<b>2001-02 £000</b>
		Increase/(decrease) in debtors	1,138	1,897
		(Increase)/decrease in creditors	(858)	(5,979)
			<u>280</u>	<u>(4,082)</u>

<b>Reserves</b>	<b>9</b>	The movement on the General Fund in the year comprised:		<b>£000</b>
		Balance at 31 March 2002		(46,795)
		Prior period adjustment		(158)
		Restated Balance at 31 March 2002		(46,953)
		Transfer of Debtors to NHSCFSMS at 31 December 2002		(92)
		Net operating costs for the year		(424,904)
		Net Parliamentary funding		426,118
		<b>Balance at 31 March 2003</b>		<u>(45,831)</u>

<b>Reconciliation of operating cost to operating cash flows</b>	<b>10</b>		<b>2002-03 £000</b>	2001-02 £000
		Net operating cost for the year	424,904	440,630
		Adjust for non-cash transactions	1.1 92	0
		Adjust for movements in working capital other than cash	8 280	(4,082)
		<b>Net cash outflow from operating activities</b>	<u>425,276</u>	<u>436,548</u>

**Contingent Liabilities** 11 The Authority withheld fee payments totalling £82,660 from contractors at 31 March 2003 on authorisation from Health Authorities investigating potential irregularities, this compared to £106,159 at 31 March 2002. It is possible that payment will not be released therefore no provision has been made within the accounts for this sum.

**Losses and Special Payments** 12 A summary of losses and special payments can be found on page 27. Under the revised format supplied by the Department of Health, losses and special payments relating to main administration and pharmaceutical services are combined.

<b>Related Parties</b>	<b>13</b>	There were no related party transactions in respect of this account.
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<b>Financial Instruments</b>	<b>14</b>	<p>FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the PPA is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The PPA has no powers to borrow funds and only limited powers to invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the PPA in undertaking its activities.</p> <p>As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.</p> <p><b>14.1 Liquidity risk</b></p> <p>The Special Health Authorities net operating costs are financed from resources voted annually by Parliament. The PPA finances its capital expenditure from funds made available from Government under an agreed borrowing limit. The PPA is not, therefore, exposed to significant liquidity risks.</p> <p><b>14.2 Interest-rate risk</b></p> <p>100% of the Authorities financial assets and 100% of its financial liabilities carry nil rates of interest. The PPA is not, therefore, exposed to significant interest-rate risk.</p> <p><b>14.3 Foreign currency risk</b></p> <p>The Authority has no foreign currency income or expenditure.</p>
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<b>Fraud</b>	<b>15</b>	<p>The losses involving fraud include cases of both court convictions and charges pending where there is firm evidence that fraud has occurred. These cases have arisen in 2002-2003 and may relate to sums in contention paid in previous financial years. From 1 April 2003 the responsibility for identifying and pursuing fraud has passed to the NHSCFSMS.</p> <p>The Director of Counter Fraud Services, DCFS has assumed responsibility for the estimation of levels of fraud, corruption and error across the NHS. In 1999 the annual losses arising from fraudulent evasion of NHS prescription charges was estimated by the DCFS to be £59m. The replacement authority, the NHSCFSMS, has not been able to produce comparative figures for 2003 although it has been stated that the level of evasion of prescription charges is less than in previous years.</p>
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<b>Compliance Recoveries</b>	<b>16</b>	<p>From 1 January 2003 the responsibility for collecting unpaid prescription charges and penalty charges passed to the NHSCFSMS. The Authority has included sums identified up to that date and these charges are reflected in both sets of accounts. Such charges are accounted for in the period which the Compliance Unit established the charge is due rather than the period in which the prescriptions to which the charges relate were dispensed.</p> <p>Debtors in respect of these sums at 31 December 2002 were £92k for the original charge and £521k for the penalty and surcharge. As these debts transferred to the NHSCFSMS they have been written out of the General Reserve and Debtor totals at 31 March 2003.</p>
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<b>Hospital Charges</b>	<b>17</b>	<p>From 1 April 2002 the Prescription Pricing Authority took over responsibilities for recharging hospital trusts the cost of their prescribing dispensed in the community, from health authorities. As this is an agency service and all costs are transferred to the relevant trust no costs of hospital prescribing are included in these accounts. This treatment is similar to that for drugs cost which are fully recharged to prescribers.</p>
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