

NHSBT Board
July 28 2016

2015/16 ANNUAL REPORT AND ACCOUNTS

1. Status - Public

2. Executive Summary

- 2.1 The NHSBT Annual Report and Accounts for 2015/16 were reviewed by the Governance and Audit Committee and formally approved, on behalf of the NHSBT Board (as allowed by section 4.3.2 of the NHSBT Scheme of Delegation), at their meeting on 14 June 2016. The Annual Report and Accounts were then formally laid before Parliament on 7 July 2016.
- 2.2 The final reported income surplus of £4.9m (see Note 2) was equivalent to the result reported in the management accounts submitted as part of the March 2016 Board Performance Report. This reflects a year end audit that, again, went extremely well with no adjustments and no control issues raised.

3. Action Requested

3.1. The Board is asked to:

Note the approval of the NHSBT Annual Report and Accounts for 2015/16 by the GAC.

4. Attachment

- 4.1 Explanatory note to describe and reconcile between the “**Net Operating Expenditure**” basis of reporting in the Annual Report and Accounts and the “**Income & Expenditure**” basis of reporting in the NHBST management accounts that are reported to the Board.
- 4.2 Hard copies of the 2015/16 Annual Report and Accounts are available on request.

Author(s)	Responsible Director(s)	NED Scrutiny
Rob Bradburn Finance Director	NA	NA

BRIEFING NOTE

Reconciliation of the Management Accounts to the Statutory Accounts

Background

The term **Capital Charges** comprises **depreciation** on fixed assets and a **notional cost of capital** (calculated as 3.5% of average net assets employed, excluding cash balances).

NHSBT is required to include these items in its pricing calculations and are therefore recovered as cash from our customers.

In the absence of any other action, NHSBT would build up a substantial cash balance of approximately £16.5 million per year (£10 million depreciation and £6.5 million cost of capital). NHSBT is therefore required to make a cash payment to the Department of Health based on the amount included in prices for the two items.

The payment is based on budget and supporting pricing models. The cash payment is not amended to reflect the actual calculations of depreciation and cost of capital for the year.

Management Accounts Reporting

In the NHSBT management accounts Income & Expenditure account includes actual depreciation and the calculated cost of capital amounts as expenditure.

The relevant accounting entries for the calculated depreciation and actual cost of capital are:

DR Depreciation expense (I&E)
CR Fixed Asset Provision for Depreciation (Balance Sheet)

DR Cost of Capital Expense (I&E)
CR General Reserve (Balance Sheet)

The accounting entry for the cash payment to the Department of Health is (calculation based on budget):

DR General Reserve (Balance Sheet)
CR Cash (Balance Sheet)

Statutory Accounts Reporting

The Statement of Comprehensive Net Expenditure treats the cash payment to the Department of Health and the (non-cash) depreciation charge as expenditure. This implies that **depreciation is effectively included twice within Net Expenditure** (actual depreciation *and* the budgeted depreciation that is paid as cash).

There is no requirement to show a notional cost of capital charge with Net Expenditure. It is therefore added back to General Reserves within the Statutory Accounts.

Note that within the Statutory Accounts we treat Department of Health funding as direct funding to the General Reserve whereas the management accounts treat the funding as income. Funding provided by the other UK Health Departments is treated as income in both the statutory and management accounts.

Reconciliation of Management Accounts and Statutory Accounts

The relevant figures for 2015/16 are:

Department of Health funding	£63,415k
Cash Payment to Department of Health for depreciation	£9,927k
Cash Payment to Department of Health for cost of capital	£6,520k
Actual depreciation charge	£10,143k
Actual notional cost of capital	£7,176k

The reconciliation between **Net Expenditure** (statutory) and **I&E Surplus** (management) is:

Net Operating Expenditure per Statutory Accounts **(67,786)**

Add in Department of Health (DH) funding <i>Treated as income in management accounts</i>	63,415
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Add back Cash Payments to DH (9,927 + 6,520) <i>Excluded from management accounts as they already include actual depreciation and notional cost of capital</i>	16,447
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Deduct actual notional cost of capital <i>We are not required to include cost of capital within Net Expenditure but it is a cost within our management accounts</i>	(7,176)
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<u>Surplus per Management Accounts</u>	4,900
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