

NHSBT Board
July 27 2017

2016/17 ANNUAL REPORT AND ACCOUNTS

1. Status - Public

2. Executive Summary

The NHSBT Annual Report and Accounts for 2016/17 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 23 June 2017. The Annual Report and Accounts were then formally laid before Parliament on 6 July 2017.

The final reported deficit of £4.9m (see Note 2) was equivalent to the result reported in the management accounts submitted as part of the March 2017 Board Performance Report. This reflects a year end audit that, again, went extremely well with no adjustments and no material control issues raised.

Two internal control matters were identified during the course of the external audit

- governance and documentation in support of R&D grant funding (medium risk)
- archiving of employee allowance documentation (low risk)

Action plans have been implemented to resolve both items.

3. Action Requested

3.1. The Board is asked to:

Note the approval of the NHSBT Annual Report and Accounts for 2016/17 by the GAC.

4. Attachments

4.1 An electronic copy of the 2016/17 Annual Report and Accounts is embedded below. Hard copies of the Annual Report and Accounts are available on request.



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4.2 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.

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).

We are required to include these items in our pricing calculations and we therefore recover the costs as cash from our customers.

In the absence of any other action, we would build up a substantial cash balance of approximately £17.3 million per year (£10.2 million depreciation and £7.1 million cost of capital). We are therefore required to make a cash payment to the Department of Health based on the amount we have included in our prices for the two items.

The payment is based on our initial budgets and pricing models. The cash payment is not amended to reflect the actual calculations of depreciation and cost of capital.

Management Accounts Reporting

In our management accounts our 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 2016/17 are:

Department of Health Funding	£65,870k
Cash Payment to Department of Health for depreciation	£10,219k
Cash Payment to Department of Health for capital charges	£7,073k
Actual depreciation charge	£10,965
Actual notional cost of capital	£7,323

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

Net Operating Expenditure per Statutory Accounts	(80,758)
Add in Department of Health funding (Treated as income in management accounts)	65,870
Add back Cash Payments to Department of Health (10219 + 7073) (Excluded from management accounts as they already include actual depreciation and notional cost of capital)	17,292
Deduct actual notional cost of capital (We are not required to include cost of capital within Net Expenditure but it is a cost within our management accounts)	(7,323)
Surplus / (Deficit) per Management Accounts	(4,919)