



# **NHS Business Services Authority**

## **ANNUAL REPORT AND ACCOUNTS 2006-07**

**Presented to Parliament pursuant to Schedule 15,  
Section 6 of the National Health Services Act 2006**

**Ordered by the Houses of Parliament to be printed on 19 July 2007**



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# NHS Business Services Authority

## ANNUAL REPORT AND ACCOUNTS 2006-07

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## **Chair's Introduction**

The NHS Business Services Authority's first year was always going to be challenging, but we approached the merger of the five previously separate NHS organisations with a clear responsibility to those who depend upon us for a service. In doing so, we have made every effort to ensure that our clients and customers would not be adversely affected by the organisational changes. Looking back over the year, we have been successful in that respect, which is entirely due to the hard work and dedication of those people working across and throughout the NHS Business Services Authority. I would like to record my thanks to everyone who has played a role and for their individual contributions.

During the past year, we have also spent time both at Board level, and more widely across the organisation, considering and agreeing our values, strategy and business plan. This has ensured a clear and shared determination of our future direction, with a focus for our efforts and priorities to improve further value for money for the taxpayer. We will do this at the same time as providing better services to, and giving increased protection for, the whole of the NHS.

Our first year has demonstrated we are capable of achieving that objective as we have provided more, at significantly less cost. I have no doubt that we will continue to be able to sustain this, as I am confident our organisation is well prepared to make the tough and imaginative changes that will be needed. Our organisation will play a key role in modernising our services to our users and in delivering substantial value for money savings that can be made available to reinvest in the NHS, where it counts most, in patient care.

**PAUL RICH**  
**Chair NHS Business Services Authority**

## INTRODUCTION

The NHS Business Services Authority (NHSBSA) was created on 1st October 2005 following the Department of Health's review of the Arm's Length Body sector. On 1st April 2006, the NHSBSA formally incorporated five previously separate NHS organisations into a single Special Health Authority.

These previous five organisations were:

- Prescription Pricing Authority
- NHS Pensions Agency
- Dental Practice Board
- NHS Logistics
- NHS Counter Fraud and Security Management Services Authority

The review of Arm's Length Bodies (ALBs) was published by the Department of Health (DH) in July 2004. The review, entitled "*Reconfiguring the Department of Health's Arm's Length Bodies*", had the following five key drivers:

- The devolution of functions wherever appropriate to the frontline;
- The appropriate impact for minimal burden;
- The Gershon Efficiency Review;
- The Lyons Review of public sector relocation;
- To take an overview of ALBs across the health and social care system.

The ALB Review Implementation Framework, which followed in November 2004, established the NHSBSA to "*represent the main processing facility and centre of excellence for payment, reimbursement, remuneration and reconciliation for NHS patients, employees, and other affiliated parties*".

However, the ALB Review Implementation Framework also states that the NHSBSA will develop a "*business model to deliver very significant savings through operational synergies and market testing as early as possible*."

It is expected that the NHSBSA will evolve from an organisation that undertakes significant operational activity to a procuring and commissioning organisation responsible for ensuring the delivery of high quality services, operational flexibility and offering best value for money for the taxpayer.

As the organisation develops and its procuring and commissioning role expands, the NHSBSA will develop the necessary skills to rigorously performance manage its contracts and thus ensuring service continuity through contract flexibility.

## **FUNCTIONS AND VISION**

The NHSBSA was established with the responsibility to provide the following:

- The NHS Injury Benefits Scheme
- The NHS Bursary Scheme
- The NHS Pension Scheme
- Pharmaceutical Claims Processing
- The Purchasing and Supply of Products to the Health Service
- Processing Claims in relation to Primary Dental Services
- Provision of the European Health Insurance Card
- Counter Fraud and Security Management Services
- Provision of Services under Hosting Arrangements

In delivering these functions, the NHS Business Services Authority will address some challenging issues and provide some very significant savings for the taxpayer.

To be successful the NHSBSA needs to have a clear strategic direction. As such, the NHSBSA Board has agreed our vision over the next five years, as:

“To be the organisation of choice to provide business solutions that deliver service excellence and value for money.”

This vision is supported by the NHSBSA's mission which is:

“Supporting the NHS, supplying the NHS, protecting the NHS.”

Our mission encapsulates the work of the NHSBSA across all its functions and divisions and supports our vision. The vision and mission have been developed with input from across the whole NHSBSA to ensure all those involved in helping to achieve the vision share the belief as to what the NHSBSA should achieve over the next five years.

To support the effective delivery of our vision and business objectives, it is important to develop the appropriate environment within the NHSBSA.

In line with our vision, the NHSBSA will be an organisation working to provide business solutions that deliver service excellence and value for money. Successful delivery requires both corporate and individual employee commitment. In achieving that success and to develop the right environment, we will:

- Treat everyone fairly and with respect;
- Work constructively for the benefit of the business with employees, trade unions, contractors, clients and customers;
- Require the highest standards of openness and conduct from our employees and partners;
- Lead with clarity, integrity and by example;
- Be committed to innovation;
- Address unacceptable behaviour and performance.

This will be achieved over time through the introduction of a range of initiatives, training and policies designed to build a positive culture common within all parts of the NHSBSA.



This will be re-enforced and developed throughout the organisation by our behaviour and in all the NHSBSA's supporting plans and strategies in areas such as human resources, communications, health & safety, environmental, equality and diversity and commercial development.

The NHSBSA believes that to achieve our vision, we face four key and significant challenges, which are:

- Establishing a track record;
- Developing a new business model;
- Developing a new management model;
- Pursuing business growth opportunities.

This report deals with the first year of our operation as an organisation and therefore primarily focuses on our efforts to address our first key challenge in establishing our track record.

Prior to 1 April 2006 and prior to the establishment of a full Board for the NHSBSA, an initial business plan was compiled for 2006-9. This Plan set the key objectives for the NHSBSA as:

- Maintain business continuity for all services provided by the constituent organisations whilst creating the NHSBSA;
- Achieve the challenging savings targets as set by the ALB Review;
- Contract out services where appropriate whilst maintaining and improving quality;
- Develop the structure and working arrangements for the NHSBSA, especially the performance management and commercial/contracting functions;
- Develop the NHSBSA role in policy development and implementation, ensuring that all policy developments are implemented effectively and on schedule (subject to the availability of funds).

The NHSBSA has performed well against each of these objectives as described in the following management commentary. However, it is also important to note that during 2006-7, the full Board of the NHSBSA invested significant time in developing a new five year strategy and vision as outlined above and a new annual business plan. This plan and its subsequent revisions will form the basis of future annual reports for the NHSBSA.

## **MANAGEMENT COMMENTARY**

The NHSBSA has faced many challenges during its first year of operation. Crucially, the establishment of a single and effective organisation has been vital to our successful first year and as a platform for future success. This work has been undertaken whilst addressing the targets set by the ALB review.

### **Establishing the NHSBSA**

The transition from five separate NHS organisations into a single body was not underestimated. During the first year, it was vital to maintain business continuity whilst creating the new organisation. The new NHSBSA needed to ensure a clear focus on the delivery of services whilst focussing on the needs of our clients and customers and keeping performance levels to a high standard and seeking to improve wherever possible. All this needed to occur within a financial framework mindful of the ALB review targets for financial savings and headcount numbers.

The five previously separate bodies' head offices were geographically spread across the country between Eastbourne, Newcastle, London, Alfreton and Fleetwood. This has meant that the NHSBSA has had to work particularly hard in developing corporate cohesion. This had been supported by the development and introduction of corporate systems and processes introducing consistency into key areas such as Human Resources and Finance. This work will continue into 2007-8 as we improve our corporate communications, IT and Estates infrastructures.

Each of the previously separate bodies has been established as a division within the NHSBSA. Each division is now led by a newly appointed Divisional Managing Director with a supporting senior management team. These teams vary in size and skill mix depending upon the nature of their work. However, each has developed their own business plans and priorities for the year ahead.

Crucially, the NHSBSA achieved its key financial targets during 2006-7. The creation of the NHSBSA was driven by the ALB review's objective of reducing costs and improving efficiency. The organisation worked within its financial limits to establish the NHSBSA and then achieve financial balance at the end of 2006-7.

An important part of creating a single and focused organisation was the appointment of key individuals to lead the NHSBSA. A Chair and Chief Executive were appointed, together with Executive and Non Executive Directors to form the NHSBSA Board. The Board is very clear about ensuring the organisation remains focused on its customers and clients and delivering value for money for the taxpayer. In ensuring this clear focus, the Board have developed a five year strategy and annual business plan. These documents reflect the NHSBSA's determination to improve the efficiency of the organisation and support the targets set by the DH's ALB review.

The Board Members are:

Mr Paul Rich	Chair
Mr Nick Scholte	Chief Executive
Mrs Anne Galbraith	Non-Executive Director
Mr Michael Harling	Non-Executive Director
Mr David Hulf	Non-Executive Director
Mr Jeremy Strachan	Non-Executive Director
Mr David Teale	Non-Executive Director
Mr Alistair McDonald	Chief Operating Officer
Mr Jim Orr	Commercial Director
Mr Mike Siswick	Director of Human Resources
Mr John Smith	Director of Finance

Details of the directors' remuneration and any significant business interests are included in the remuneration report later in this document.

The Board has also established two committees which report directly to the Board. These are:

- Audit and Risk Management Committee
- Remuneration and Terms of Service Committee

The members of the Audit and Risk Management Committee for 2006-7 were David Hulf (Chair), Jeremy Strachan, and Anne Galbraith. The members of the Remuneration and Terms of Service Committee are Michael Harling (Chair), David Teale, and Paul Rich.

The wide range of skills and experience represented at Board level have ensured that it has been able to work effectively from an early stage providing direction and leadership for the organisation. The Board has agreed and considered, on a monthly basis, detailed financial and performance reports. These reports have been developed and tailored to meet the Board's requirements, concerning the availability of important and timely information together with key performance indicators for the NHSBSA's business.

A range of corporate functions have also been established to ensure an efficient and co-ordinated approach to the supporting infrastructure of the NHSBSA.

The Corporate Finance function has been established to support all business divisions and to ensure a consistent approach to financial management and control. This has extended to the preparation of annual accounts and supporting the introduction of wider systems such as the Electronic Staff Record. Also during 2006-7, a specific piece of work to consolidate all previous sets of accounts relating to the previous organisations was successfully undertaken.

A Corporate Human Resources (HR) function has also been established to support divisions in all personnel, training and development issues. The HR service has been particularly important to address the many staff issues involved with a merger the size of the NHSBSA. Working with the Unions, HR staff have led work to establish an acceptable corporate set of staff related policies. This work will continue into 2007-8.

A Commercial function has also been established in the NHSBSA to lead contract development and supplier relations. This small team is led by the Commercial Director who is also a member of the Board.

In addition to the above, the NHSBSA has appointed a Corporate Secretary to oversee governance arrangements and a Head of Internal Audit and Risk Management to lead those particular areas of work in a consistent and corporate manner.

### **Establishing Corporate Systems to Support the new NHSBSA**

To ensure the NHSBSA is as effective as possible, as quickly as possible, a variety of systems and processes have been introduced to reduce duplication, improve accuracy and cut expenditure. Common financial processes have been put into place to support the monitoring and management of financial flows and significant progress has been made towards consolidating all financial transactions onto one corporate finance system. Common procurement systems have been introduced to improve value for money in the purchasing of goods and services. These systems have been further strengthened by the introduction of a corporate team to oversee the procurement work and to oversee the necessary expertise in contract development and supplier management.

Human Resources have worked to introduce consistent approaches across a range of recruitment, training and other related issues. This work has been achieved with the support of the trade unions and remains ongoing into 2007-8.

Information governance and how the organisation handles requests for information under the Freedom of Information Act or Data Protection have been addressed corporately. Systems are now in place to ensure such requests are handled consistently and thoroughly. Further work in this area will continue in 2007-8 to ensure the NHSBSA improves further. A full range of corporate systems to manage corporate governance, risk, audit and business planning have also been introduced during 2006-7 and will be further developed during 2007-8. The systems introduced will be reviewed and tested for effectiveness to ensure the NHSBSA remains as efficient in its operations as possible.

### **Developments within NHSBSA Divisions**

#### ***NHS Supply Chain Management Division***

Upon establishment of the NHSBSA, the NHS Logistics service formed a business division. However in October 2006, this was replaced by the NHS Supply Chain which was established following the outsourcing of parts of supply chain services of the NHS to the logistics company DHL. The outsourcing also covered parts of the NHS Purchasing and Supply Agency (NHS PASA). The contract is planned to run over 10 years, during which time it is expected to offer cumulative savings of around £1bn for the NHS.

The NHSBSA has established the Supply Chain Management Division which will maintain primary accountability for ensuring the excellent delivery of services through performance management of the contracts. It will also work hard to understand NHS customer needs and translate those into appropriate service specifications. This management division will work closely with DHL and its customers to ensure that maximum benefits are realised from the contract and customers continue to receive an excellent service.

The transition from NHS Logistics to NHS Supply Chain was managed with no effect on service or performance.

### ***Dental Services Division***

The first major change to the NHS Primary Care Dentistry Services arrangements in over 50 years took place on 1 April 2006, with a new dental contract being introduced. This meant that the services provided by the former Dental Practice Board were generally no longer fit for purpose. During 2006-7 there has been a significant change in the way the Dental Services Division (DSD) is structured and delivers its services. For the first time, the DSD now provides services direct to Primary Care Trusts (PCTs) and Local Health Boards (LHBs) to assist them with the commissioning and monitoring of dental contracts locally.

The development of appropriate services has progressed significantly during 2006-7. This has involved extensive consultation initially in 2005-6 with the Department of Health and Welsh Assembly and then more recently with the wider NHS in the form of Strategic Health Authorities (SHAs), PCTs, LHBs and where relevant NHS shared business service centres.

Further enhancement to these services is inevitable over the next two years as the new NHS arrangements begin to mature and as PCTs and LHBs become ever more familiar and confident in their role as local commissioners of dental services. During 2006-7 the DSD has been restructured to ensure it has the appropriate skills necessary to improve its services, continue providing value for money and meet future challenges.

A new management team was appointed during 2006-7 who will continue to manage the outsourced work.

### ***Prescription Pricing Division***

The Division maintained a high standard of service delivery throughout the merger process. During 2006-7 the NHSBSA made significant advancements with the Division's Capacity Improvement Programme. This programme will establish improved technology which will significantly reduce the costs associated with processing prescriptions.

The Programme will introduce the capability to receive electronic messages from the DH's electronic prescribing initiative and thereby further reduce operating costs. It will also allow changes to policy to be introduced at a much reduced cost. The new system will be able to deal with continuing prescription growth, currently above 5.5% per annum, and an increasing range of prescribers eg nurses, without increasing unit cost. It is also expected that there will be a significant reduction in workforce numbers and associated estates requirements.

It is expected that during 2007-8, the Capacity Improvement Programme will progress with its roll out across the Division.

The Prescription Pricing Division (PPD) also continued to provide other functions during 2006-7, such as administration of the scheme under which people on a low income can get help with health costs and administration of the European Health Insurance Card scheme.

Also during 2006-7, extensive work was undertaken to move the management functions of the Student Grants Unit to the PPD. The Student Grants Unit administers the NHS Bursary Scheme providing bursaries and paying the tuition fees of students undertaking programmes leading to professional registration in a range of health disciplines. There are currently around 80,000 NHS funded students. In 2007-8 it will be accompanied by the full transfer of the Social Work Bursary Scheme from the General Social Care Council in 2007-8. These moves will improve efficiencies and reduce costs due to the similarities in the transactional nature of the work. Recipients of the bursaries will not be adversely affected by the changes but it is another example of how the NHSBSA is seeking to improve value for money.

The Authority's Business Plan also indicated that other business areas would be considered as to their suitability for outsourcing, with particular emphasis on the activities performed within the PPD. To that end a business case was submitted to the DH, outlining the likely costs and benefits. A ministerial decision was made not to proceed with this at the present time, primarily to allow the benefits of the Capacity Improvement Programme to be fully realised. During 2007-8 the Authority will explore the effects of this decision on its ability to meet, in the current year and future years, the stringent savings targets established by the DH.

### ***Pensions Division***

The NHS Pension Scheme provides a pension service to its large number of members both working and retired. Following an extensive consultation programme during 2006 and Department of Health negotiations with trade unions, changes to the NHS Pension Scheme have been proposed. These changes will mean that the NHSBSA will be required to run two differing pension schemes for existing and new members. The systems and processes used to manage the NHS Pensions Scheme are also undergoing a thorough review to ensure their long term suitability.

During 2006-7, the NHSBSA has fully reviewed the working structures within the Pensions Division. Significant efforts have been made to improve service delivery. This has included the supply of improved management information, introduction of performance targets and addressing the large backlog of outstanding work. KPIs indicate that improvements are being made but it is acknowledged that many service issues will take longer to address.

Throughout the above review processes, the NHSBSA remained focussed on the needs of its customers and the need to continue to improve services wherever possible. The year 2006-7 saw the introduction of key performance indicators for important areas of work within the Pensions Division and many improvements have been recorded in important areas such as the timeliness and accuracy of payments.

Detailed work within the Division is ongoing in preparation for the introduction of the new NHS pension scheme.

### ***Counter Fraud and Security Management Services Division***

The work of the Counter Fraud and Security Management Services Division (CFSMSD) is split into two areas, which are:

- Responsibility for preventing, detecting and investigating fraud against the NHS; and
- Ensuring the security of staff and property throughout the NHS.

Over the last five years the CFSMSD has investigated over 1,900 cases of suspected fraud resulting in 216 criminal prosecutions and 275 civil or disciplinary sanctions. With a 97% successful prosecution rate, the Division has continued to take action against those who defraud the NHS.

Violence and abuse against NHS staff impacts directly on patient care and attacks on staff are treated with the utmost seriousness. The Division has developed a policy to prosecute, where appropriate, anyone who attacks or abuses NHS staff.

Throughout 2006-7, the Division retained its operational independence from the NHSBSA's management and Board in terms of the planning, delivery and development of its counter fraud and security management strategy and work. The Department of Health has also required the accountability arrangements for the Division to remain separate and its funding ring fenced.

During the last year, the NHSBSA established effective working relationships with the Division's DH sponsor and the inherited senior management team. Work has progressed to develop a Memorandum of Understanding to make the Division's status very clear in relation to a range of relevant issues, which it is intended will be in place during 2007-8.

### ***Hosted Services***

The NHSBSA provides a range of hosted and managed financial and HR services to DH teams and other health related organisations. By utilising the NHSBSA's expertise in these areas and the economies of scale available, significant value for money savings can be delivered to these bodies.

During 2006-7 the NHSBSA expanded the scope of the services that it provides to include a further three new DH teams.

## **Managing Performance**

During 2006-7 the NHSBSA developed and agreed a range of Key Performance Indicators (KPIs) with the DH. These KPIs were developed to provide a high level overview of performance within key areas. The KPIs have been reviewed throughout the year to ensure they continue to provide relevant information and appropriate monitoring. During 2007-8, a revised set of KPIs will be introduced which will build on those used during 2006-7.

The indicators for 2006-7 covered the various aspects of service delivery and customer satisfaction as follows:

### ***Service Delivery***




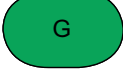

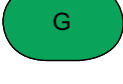
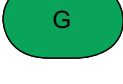
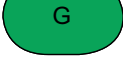

Payments:	Measuring both the timeliness and accuracy of payments.
Supply Chain:	KPIs in this area measure both product availability and the timeliness of goods and orders received by Supply Chain customers.
Case Administration:	Measuring both the timeliness and accuracy of handling of relevant cases.
Information:	Measuring the timeliness of information supplied.
Contact Centre:	Measuring waiting times and the abandoned call rate within NHSBSA call centres.

### ***Customer Satisfaction***

The NHSBSA defines clients as those that fund our services and customers to be those who use our services. To ensure we continue to meet their varying requirements KPIs were agreed as necessary to measure client satisfaction and customer/user satisfaction. Work to adequately report against these KPIs has continued throughout 2006-7 and will provide appropriate feedback during 2007-8.



All the above KPIs were reported against throughout 2006-7 on a regular basis. The KPIs were colour coded (**Red – Amber – Green**) and supported by a relevant commentary. A summary of the outturn of these KPIs for 2006-7 is given below :

KPI	2006/07	Commentary
Payments – Timeliness (target 100%)		Pensions Division target for financial year not achieved
Payments – Accuracy (various targets depending upon service)		Accuracy targets for Student Grants under development
Supply Chain – product availability (target 98.2%)		
Supply Chain – goods/orders received on time (target 98.75%)		
Case Administration – Timeliness (target 100%)		Pensions Division target for financial year not achieved
Case Administration – Accuracy (various targets depending upon service)		
Information – Timeliness (target 100%)		
Contact Centre – Wait times (target 80% within 20 seconds)		
Contact centre – abandoned call rate (target < 5%)		Pensions Division target for financial year not achieved

(These KPIs are taken from locally held management information systems and monthly updates provided to the NHSBSA Board. Due to this being the first year of operation of the NHSBSA relevant comparator information is not available for previous years)

## Human Resources Issues

### *Consultation*

The creation and development of the NHSBSA has benefited from a continued partnership with both staff and unions.

A National Joint Committee (NJC) has been established for the NHSBSA for the purpose of negotiating and discussing matters of common interest such as:

- Future structure of the organisation;
- Harmonisation of HR policies and procedures;
- Development of business plans;
- Contracting process coupled with other matters arising from the creation of the NHSBSA and affecting the employment of the staff from the Business Divisions.

The NJC meets periodically but not less than quarterly as agreed by the Committee.

At a local level, Joint Consultative Committees now operate to standard arrangements within the Business Divisions with a two way flow of information from the National Joint Committee and local Joint Consultative Committees to ensure that a common approach is taken across the NHSBSA.

More informally, communication with staff is carried out on an ongoing basis within divisions via team briefings, newsletters and intranet. The NHSBSA at Corporate level has produced a communications strategy and is in the process of appointing a Head of Corporate Communications who will take corporate responsibility for both internal and external communications.

### ***Health & Safety***

Although at an early stage, significant progress has been made with particular emphasis being placed upon the provision of a health and safety function which supports and guides management at all levels in becoming more self governing and accountable.

A NHSBSA Health and Safety strategy has been approved and adopted, as has health and safety policy documentation. All NHSBSA divisions have a nominated health and safety co-ordinator in place.

With regard to health and safety policies, there are three draft safety focus policies which were drafted during 2006-7. Other such policies are in the development stage. There are six safety focus briefings which have been developed and distributed throughout the NHSBSA, in addition to the five safety awareness briefings which have also been developed and distributed.

Training needs for successful implementation of the NHSBSA health and safety strategy have been identified and training proposals are in place. Approximately 1,500 PPD and Pensions staff have attended short health and safety briefings during 2006-7.

A NHSBSA national Health & Safety Committee will be operational in the spring of 2007 with divisional health and safety committees already established and operating during 2006-7.

### ***Equality & Diversity***

The NHSBSA attaches great importance to creating an environment, which fosters equality of opportunity and welcomes diversity amongst the workforce. The strategic aim

is to create an environment in which individual differences and the contributions of all employees are recognised and valued and where everyone irrespective of race, gender, disability, sexuality, religion or belief is treated with equity, dignity and respect.

Our aim is summarised in the following four key objectives:

- Creating an environment in which individual characteristics and the contributions of all staff are recognised, valued and able to flourish;
- Providing a working environment which fosters dignity and mutual respect, in which no form of bullying, intimidation or harassment is tolerated;
- Ensuring fair employment policies and practices are in place and operating;
- Fostering equality and diversity as normal aspects of normal life.

The NHSBSA Equality and Diversity Policy was produced during 2006-7 and covers equality of opportunity for all including those with a disability. The policy is currently undergoing consultation.

To enable us to show our commitment to good practice in employing disabled people the NHSBSA is actively pursuing recognition given by Jobcentre Plus to become a Disability Symbol User.

The NHSBSA aims to ensure that ability to do the job is the sole criterion for recruitment or advancement consistent with the principle of fair and open competition. Disabled employees had equal opportunities for training to develop new skills and advance their careers.

We have formed an Equality and Diversity Standing Committee with membership from across the divisions at the NHSBSA and representatives from each of the three trade unions to help us meet our legal obligations under the Equality legislation. Accordingly, we have published Race Equality, Disability Equality and Gender Equality schemes as required by the Race Relations (Amendment) Act 2000, the Disability Discrimination Act (DDA) 1995 (as amended by the DDA 2005) and the Sex Discrimination Act 1975 (Statutory Duties) Order 2006.

Equality legislation imposes certain duties on our organisation as a public body; one of the specific duties is a requirement to assess the impact of all policies on staff and service users. We have procured a consultancy service to help us take this forward. They will be providing an Impact Consultancy Service for the NHSBSA, which will involve training staff on the requirements of the legislation and how to conduct an Impact Assessment to enable us to fulfil our legal obligations.

The majority of our staff have now received Equality and Diversity training and there are new sessions planned for those who have not yet received the training. New recruits will have Equality and Diversity training included as part of their induction programme and a training plan is being developed to have a rolling programme for Equality and Diversity Refresher training.

## **Other Management Issues**

### ***Environment***

A corporate approach to the impact of the NHSBSA on the environment is being developed. During 2006-7 the NHSBSA used the policies in place in each of the constituent bodies prior to the merger regarding the disposal of waste, the use of utilities, consumption of paper and general waste. The organisation aims to reduce consumption and generated waste and ensure recycling whenever possible. Environmental considerations are also included in procurement decisions where practical. Further development in this area will be addressed during 2007-8.

### ***Major Incident Plan***

During 2006-7, the NHSBSA has used the existing plans that were in place in each of the constituent bodies prior to the merger. These plans will be reviewed during 2007-8 and updated wherever necessary.

### ***Freedom of information***

The NHSBSA has adopted a publication scheme for 2006-7. This work combined the existing schemes across each of the constituent bodies whilst considering corporate requirements. The NHSBSA has established corporate systems and processes to handle Freedom of Information requests during 2006-7

### ***Welsh Language***

The NHSBSA has submitted a draft Welsh Language Scheme to the Welsh Language Board during 2006-7. This has been accepted as good practice in principle and the Authority will progress this work during 2007-8.

### ***Complaints Management***

The NHSBSA continues to support the well established systems for complaints managements that existed in each of the constituent bodies prior to the merger. During 2007-8, consideration will be given to the effectiveness and benefits of a combined system. As always, this will be guided by the principles of adding value and improving efficiency wherever possible.

### ***Declaration of Interests by NHSBSA Board Members***

Interests declared by members of the NHSBSA Board for the year 2006-7 are set out in the Remuneration Report included later in this Annual Report.

## **Annual Accounts 2006-7 Financial Review**

As this is the first full financial year for the NHSBSA, the development of an appropriate accounting framework has been the subject of significant development work. In full consultation with the DH, the NHSBSA has developed a framework for the rationalisation of the thirteen sets of annual accounts that it inherited into three sets. As well as the

Administration Accounts set out in this Annual Report and Accounts, the NHSBSA is also responsible for the production of the NHS Pension Scheme Accounts and a set of Agency Accounts for financial transactions it undertakes on behalf of the DH (Pharmaceutical and General Dental payments).

The Administration Accounts set out in the financial statements attached to this report effectively represent the merger of the administration accounts of each division. Also included within the Administration Accounts are income and expenditure relating to the NHS Bursary Scheme, administered by the NHSBSA, and the trading accounts of NHS Supply Chain. Whilst the management of the Supply Chain function was outsourced to DHL, effective from October 2006, the working capital of the business (cash, stock, debtors and creditors), remains the responsibility of the NHSBSA and therefore is accounted for within the NHSBSA's Administration Accounts. A separate disclosure note to the accounts provides the detail of the Supply Chain trading activity, and likewise the NHSBSA balance sheet is broken down segmentally in the notes to the accounts to highlight the Supply Chain balances. The accounts highlight the trading activity of NHS Supply Chain for the six months prior to the outsourcing to DHL, when the Logistics operation was managed and operated in-house, as well as the trading activity for the six months following the outsourcing of activities.

The financial statements for the Authority have been prepared in accordance with the direction given by the Secretary of State for Health under section 98(2) of the NHS Act 1977 (as amended) and in a format instructed by the DH with the approval of HM Treasury.

The DH's Arms Length Bodies Review process identified stringent financial targets for each of the reconfigured organisations. The NHSBSA was expected to deliver significant cash releasing and productivity savings (to reflect unfunded volume and price increases) during 2006-7. The NHSBSA's resource limit of £129.4m (£589.8m including Student Bursaries) was set at a level to reflect the requirement to deliver these savings. The NHSBSA's financial statements for 2006-7 show that the Authority reported a net resource outturn of £129.2m, (£589.6m including Student Bursaries) which was £0.2m below the revenue resource limit, thereby achieving the challenging savings targets for 2006-7.

Included in the above expenditure figures are transition costs totalling £2m, which relate to the cost of fundamental reorganisation, primarily redundancy costs, brought about by the merger of the five former constituent authorities to form the NHSBSA.

During the financial year the Authority considered its accounting treatment of the costs of developing software and systems, resulting in the capitalisation of expenditure relating to the PPD's Capacity Improvement Programme and the Pensions Modernisation Scheme. Capital expenditure for 2006-7 was £11.3m, which was a £3.9m underspend against our capital resource limit.

The NHSBSA also provides a range of hosted and managed financial and HR services, for which it has been provided with cash limits of £28.2m to cover expenditure on behalf of the organisations to which it provides services. This expenditure is not included in the Authority's income and expenditure accounts and is either recharged back or charged

against the individual cash limits for each of these organisations. However, the Authority's costs incurred in providing these services (primarily staff costs) have been included within the Authority's operating expenditure as has the total contributions from these organisations of £1.2m to cover these costs.

The NHSBSA has total net assets of £101.5m. Of this, £64.4m relates to the working capital balances of the NHS Supply Chain operation, now managed by DHL.

Looking to the future, the NHSBSA must continue to deliver value for money in the services that it delivers in order to meet the efficiency targets it has been set. The NHSBSA has devised its business plan for 2007-8 around the achievement of these savings targets.

There have been no post balance sheet events which materially impact upon any of the figures included in the financial statements of the NHSBSA for 2006-7.

### **Auditor**

The Comptroller and Auditor General is appointed by statute to audit the NHSBSA. The audit fee for the year ended 31 March 2007 of £250,000 is for the audit of these accounts only and there was no remuneration paid to the auditors for non-audit work during the year.

### **Pension Costs for Current Staff**

The treatment of pension liabilities and relevant pension scheme details are set out in the accounting policies note 1.9 to the financial statements and in the remuneration report below.

### **Accounting Officer's Disclosure to the Auditors**

As far as the Accounting Officer is aware, there is no relevant audit information of which the NHSBSA's auditors are unaware and the Accounting Officer has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

### **Principal Risks and Uncertainties**

The NHSBSA has developed a robust approach to the identification and management of risk, including the development of corporate and divisional risk registers. The Statement on Internal Control, below, sets out the processes used to identify and manage risks. These processes were in place throughout the financial year.

### **Payment Policy**

The NHSBSA's performance with respect to the Better Payment Practice Code is outlined in note 3.3 to the financial statements.

## Resources

The NHSBSA has a diverse set of resources available to it in terms of its workforce, locations and assets. Key to the future of the NHSBSA is the breadth of knowledge and experience available in the various business divisions.

In total an average of 2,819 staff were directly employed by the NHSBSA throughout 2006-7 (excluding those transferred to DHL as part of the outsourcing arrangements).

The split between Divisions was as follows:

<b>Organisation</b>	<b>Number of staff (wte)</b>
Corporate Divisions	84
Prescription Pricing Division	2,067
NHS Supply Chain Management Divisions	14
Dental Services Division	99
Counter Fraud and Security Management Service	217
Pensions Division	338

The NHSBSA operates from the following main locations:

<b>Organisation</b>	<b>Locations</b>
Corporate Divisions	Newcastle
Prescription Pricing Division	Newcastle, Durham, Bolton, Liverpool, Manchester, Wakefield, Sheffield, West Bromwich, Preston
NHS Supply Chain Management Division	Alfreton
Dental Services Division	Eastbourne
Counter Fraud and Security Management Services	Coventry, London, Reading, Newcastle & Ilford
Pensions Division	Fleetwood

The NHSBSA as a stand alone Special Health Authority does not have any special relationships with other bodies other than those that it provides services to. This would include other NHS bodies that use NHSBSA information for the delivery of their services. The NHSBSA does provide support to other government bodies on an adhoc basis by providing information on the services it provides, and also through its hosted services.

## Stakeholder relationships

In merging five disparate organisations, the NHSBSA has inherited a large number of stakeholder relationships to manage. It continues to communicate with policy colleagues in the DH to deliver the benefits of new policies and policy amendments. The ultimate customer for the majority of the services it provides is the wider NHS and its staff.

Virtually every part of the NHS is touched in some way either directly or indirectly from the activities of the NHSBSA, for example by providing goods, supporting the supply of pharmaceutical drugs, providing an NHS pension or keeping staff secure at work.

There are some key relationships specific to the NHSBSA. A significant amount of the work of the NHSBSA is already contracted out to third party contractors and this has expanded through 2006-7. Contractor management is a vital area of excellence on which the NHSBSA is focusing. The Pensions Division is also continuing to work closely with the Government Actuaries Department and HM Treasury.

The NHSBSA Director of Human Resources has developed consultative mechanisms with trade unions.

## **REMUNERATION REPORT**

This report for the year ended 31 March 2007 is produced by the Board. A Remuneration Committee was appointed by the Board and met in shadow form in February 2006. Thereafter, it met on seven occasions during the period 1 April 2006 to 31 March 2007. Its remit is to deal with the remuneration, benefits and terms of service of the Chief Executive, Executive Directors and such other senior managers specifically designated by the Board who report to the Chief Executive and have such responsibilities as are equivalent to those of Executive Directors.

### **Remuneration Committee**

A Remuneration Committee, comprised of the Authority's Chairman and two Non-Executive Directors, was appointed by the Board and met in shadow form in February 2006. Thereafter, it met on 7 occasions in the period 1 April 2006 to 31 March 2007.

The terms of reference for the Committee are as follows:

The Remuneration Committee will:

- (i) Make recommendations to the Authority on the remuneration, benefits and terms of service of the Chief Executive, Executive Directors and such other posts as are specifically designated by the Board to be within their purview, ensuring that such officers are fairly rewarded for their individual contributions to the Organisation.
- (ii) Ensure that effective systems are in place and are being properly administered to monitor and evaluate the performance of individuals, including such assessments as may be required to determine the level of remuneration, including any performance related pay or bonus payments for relevant employees.
- (iii) Advise and oversee contractual arrangements for relevant employees, including the calculation and scrutiny of termination payments, ensuring that such payments are appropriate, reflect best practice and take account of both national guidance and DH approval requirements.
- (iv) Take responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- (v) Satisfy itself with regard to the effectiveness of the plans and processes that are in place for succession planning, ensuring that these arrangements are supplemented by challenging and innovative management development programmes.



## Remuneration Policy

The posts falling within the responsibility of the Remuneration and Terms of Service Committee will be; the Chief Executive, Chief Executive reportees who are Executive Directors and, exceptionally, any post which is analogous to an Executive Director post and determined by the Remuneration Committee on the recommendation of the Chief Executive to be outside NHS (Agenda for Change) Pay Bands 1-9.

The remuneration of those employees that fall within the remit of the Committee is established by the Department of Health under the terms and conditions of NHS Very Senior Managers.

## Service contracts

Executive Directors are employed under Very Senior Manager contracts of employment, under the model issued by the Department of Health, as amended by the Authority.

There are no contractual clauses or any other agreements for compensation in the event of early termination of office.

## Emoluments of Non Executive Board Members

The remuneration relating to all Directors in post in 2006-7 is detailed in the tables below which identify the salary, other payments and allowances and pension benefits applicable to both Executives and Non Executives which are subject to audit.

The following table sets out details of payments made and contract term details for the Chairman and Non Executive Members:

2006-07					
Name and Title	Salary in £5k bands £000	2006-07 Other Remuneration in £5k bands £000	Benefits in Kind (rounded to the nearest £100) £000	Date of Contract Commencing	Contract Expires
P Rich Chairman	55-60	0	0	1 Oct 2005	31 Oct 2009
M Harling Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
D Teale Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
D Hulf Non Executive Director	10-15	0	0	1 Dec 2005	30 Nov 2009
J Strachan Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
A Galbraith Non Executive Director	5-10	0	0	1 Apr 2006	31 Mar 2009

## Emoluments of Chief Executive and Senior Managers

The following table sets out details of payments made and contract term details for the Chief Executive and other Senior Managers. All benefits in kind related to the provision of a lease car:

Name and Title	Salary in £5k bands  £000	2006-7 Other Remuneration in £5k bands  £000	Benefits in Kind (rounded to the nearest £100)  £000	Date of Contract Commencing	Contract Expires
N Scholte Chief Executive	140-145	0	8.6	1 Feb 2006	Ongoing
M Siswick Director of HR	85-90	0	2.9	1 Feb 2006	Ongoing
W J Smith Director of Finance	100-105	0	3.4	1 Feb 2006	Ongoing
J Orr Commercial Director	85-90*	0	0	3 Jul 2006	Ongoing
A McDonald Chief Operating Officer	100-105	0	5.4	1 May 2006	Ongoing

\* part year only

## Pension Benefits

The table below sets out the pension benefits of the Chief Executive and Senior Managers of the NHSBSA:

Name and Title	Real Increase in pension at age 60 (bands of £2,500) £000	Real Increase in pension lump sum at aged 60 (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31 March 2007 (bands of £5,000) £000	Cash Equivalent Transfer Value at 31 March 2007 £000	Cash Equivalent Transfer Value at 31 March 2006 £000	Real Increase in Cash Equivalent Transfer Value £000	Employer's contribution to stakeholder pension £000
N.Scholte Chief Executive	0 – 2.5	5 – 7.5	30 – 35	100 – 105	458	416	22	0
M.Siswick Director of HR	0 – 2.5	5 – 7.5	10 – 15	35 – 40	n/a	n/a	n/a	0
W J Smith Director of Finance	7.5 – 10	22.5 – 25	40 – 45	120 – 125	629	488	90	0
J Orr Commercial Director	0 – 2.5	2.5 – 5	0 – 5	0 – 5	17	0	12	0
A.McDonald Chief Operating Officer	5 – 7.5	17.5 – 20	30 – 35	100 – 105	459	359	64	0

As Non-Executive Directors do not receive pensionable remuneration, there are no entries in respect of pensions for Non-Executive Directors.

## Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figure and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## **Real Increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of period.

## **Register of Interests**

The Secretary of State has agreed that NHS Authorities should maintain a formal register of Members' interests which should be made publicly available, on request, in the offices of the Authority.

The Register should include details of all directorships and other relevant and material interests which have been declared by both executive and non-executive Board Members.

Interests which should be regarded as "relevant and material" are:

- Directorships including non-executive directorships held in private companies or PLCs (with the exception of those of dormant companies);
- Ownership or part ownership of private companies, businesses or consultancies likely or possibly seeking to do business with the NHS;
- Majority or controlling shareholdings in organisations likely or possibly seeking to do business with the NHS;
- A position of authority in a charity or voluntary body in the field of health or social care;
- Any connection with a voluntary or other body contracting for any NHS services.

Any changes in interests should also be declared in writing within four weeks of the change occurring, and recorded in the Board Minutes.

Board Members' Directorships of companies likely or possibly seeking to do business with the NHS should be published in the Board's Annual Report. The information should be kept up to date for inclusion in succeeding Annual Reports.

During the course of a Board meeting, if a conflict of interest is established, the Board Members concerned should withdraw from the meeting, and play no part in the relevant discussion or decision.

## **Chair**

Mr Paul Rich Nil return

## **Non-Executive Directors**

Mr David Hulf Advisory Board Member of the Manchester Business School.

Mr Jeremy Strachan Trustee of Drugscope (National Charitable Trust)  
Company Secretary for Forensic Science Service Ltd  
(Government Owned Private Company)

Mrs Anne Galbraith Member of Puffin Appeal (Charity Raising Funds for Cystic Fibrosis)  
Director of Durham School  
Chair of Valuation Tribunal Service  
Chair of Council for University of Durham  
Health Consultant (Self Employed) – Chaired Mental Health Inquiries

Mr David Teale Chair of Solutions SK (Company wholly owned by Stockport MBC).  
Chair and Member of Parkway Green Housing Trust (Charitable Trust)  
Chief Executive of Excellence North West and Chief Executive Designate of North of England Excellence

Mr Michael Harling Shareholder in Xansa plc  
Shareholder in Deutsche Post  
Partner is also declared as being a shareholder in Xansa plc and Deutsche Post.  
Receives a pension from Xansa plc

## **Executive Directors**

Mr Nick Scholte Non-Executive Director of Supporta plc  
Chief Executive

Mr Mike Siswick Nil Return  
Director of Human Resources

Mr John Smith Nil Return  
Director of Finance

Mr Jim Orr Nil Return  
Commercial Director

Mr Alistair McDonald Nil Return  
Chief Operating Officer

## **STATEMENT OF THE BOARD'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES**

Under the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of Treasury, the NHSBSA is required to prepare a statement of accounts for each financial year in the form, and on the basis, determined by the Secretary of State, with the approval of Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the NHSBSA's state of affairs at the year end and of its net resource outturn, recognised gains and losses and cash flows for the financial year.

The Accounting Officer for the DH has appointed the Chief Executive of the NHSBSA as the Accounting Officer, with responsibility for preparing the Authority's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Board and Accounting Officer are required to:

- observe the accounts direction issued by the Secretary of State, 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 had been followed and disclosed and explained any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless inappropriate to presume that the NHSBSA will continue in operation

The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public funds and assets vested in the NHSBSA, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the DH.

**Nick Scholte**  
**Chief Executive**  
**NHS Business Services Authority**  
**11 July 2007**

## **STATEMENT ON INTERNAL CONTROL**

### **Scope of Responsibility**

As Accounting Officer and Chief Executive of the Board, I have responsibility for developing and maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives. I am also personally responsible for safeguarding the Authority's assets and public funds as set out in the Accounting Officer Memorandum.

The Authority was established in 2006 to manage 5 very different NHS business activities on behalf of the Department of Health, and accountability arrangements with the Department comprise an overall Authority sponsor and specialist sponsors linking with the Authority's business divisions. Comprehensive target setting, performance management and accountability arrangements are in place with the Department of Health.

The arrangements for managing the Counter Fraud and Security Management Service (CFSMS) have been distinct from the other divisions. The Department of Health has required the CFSMS to retain operational independence from the Authority management and Board in terms of the conduct, planning, delivery and development of its counter fraud and security management strategy and work. The Department of Health has also required the accountability arrangements for the CFSMS to remain separate and its funding ring fenced, although its expenditure forms part of the Authority's administration accounts

### **The purpose of the system of internal control**

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

- Identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives;
- Evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Systems of internal control were generally well established at the former bodies that were drawn together to form the NHSBSA, and where appropriate to the delivery of distinctive divisional services these have remained in place during the year. Where appropriate, corporate policies and procedures have been drawn up and implemented for application across all business divisions to reflect the needs of the new organisation.

Following the reconfiguration of the five former authorities into one, corporate arrangements to reflect the Authority's roles in target setting, performance management and overall harmonisation were not in place from day one. The NHSBSA's corporate system of internal control has been in development during the year ended 31 March 2007. Substantial progress has been made, although further development and embedment will be key elements of our work in 2007/08.

## **Capacity to handle risk**

The Board is now well established and considers how the risks of the individual bodies and the corporate whole can be managed and mitigated. The directors reviewed the optimal method of managing risk across the Authority and identified the requirement for a Head of Internal Audit and Risk Management. This post was filled during 2006/07 and will be central to the internal control process for the Authority.

The Authority has developed a range of internal control and risk management processes, comprising:

- Clearly defined organisation structures and delegated authorities appropriate to the Authority's business;
- Approval of Authority strategy and business plans by both the Authority and the Department of Health (DH);
- Regular internal review processes, supported by review with our DH sponsor branch;
- Authority wide standards, policies and processes on core business activities including risk management, health and safety, financial management, managers' code of conduct and corporate governance framework.

## **The risk and control framework**

The Board sets its objectives systematically through corporate strategy and business planning, and identifies the key risks to delivery of the plan. Risk management systems were well established at the former authorities from which the NHSBSA was formed, and locally these have remained in place. Corporate risk and control frameworks have been developing since the establishment of the Authority and a process of harmonisation started. These arrangements include:

- A corporate risk management strategy has been developed and approved by the Board covering both corporate and divisional requirements;
- A high level corporate risk register has been compiled, which is regularly considered by the Board;
- Existing divisional risk registers are being standardised and reported to the Authority regularly;
- The successful delivery of each business division's objectives is monitored closely by the Chief Operating Officer and the Executive Board using a suite of critical KPIs in the form of a balanced scorecard;
- A management assurance framework that maps out the policies and procedures through which the Authority's risks are managed has been developed;
- An Audit and Risk Management Committee has been established, which actively monitors developments in risk management:
  - the Head of Internal Audit and Risk Management reports on activity in this area as a standing item on the Committee's agenda;
  - the corporate risk register is reported to and considered regularly by the Committee;
  - the management assurance framework referred to above is also a regular item considered by the Committee.



## **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance and on the controls reviewed as part of the internal audit work. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance. To further corroborate management and accountability arrangements with the divisions, Divisional Managing Directors have provided me with letters of representation to the effect that:

- Internal controls have remained in place during the year;
- Financial information reported to the Authority is to the best of their knowledge correct;
- There is no material information of which they are aware that we have not also been made aware of.

Despite the different governance arrangements in place at the CFSMS, sufficient assurances have been gained through the CFSMS Divisional Managing Director's specific assurances and through the NHSBSA's Head of Internal Audit having reviewed and discussed the CFSMS internal audit reports and findings.

The assurance framework in place contributes to the evidence, and my confidence, that appropriate internal controls are in place and risks are being managed to deliver the NHSBSA's principal objectives.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Management Committee. As weaknesses emerge, or are flushed out by audit reviews, plans are put in place to address them. Progress with action plans is monitored by internal audit and overseen by the Audit and Risk Management Committee.

The Board has become well established during its first year and in my view has the right mix of skills and experience to deliver the Authority's strategic objectives. The Board has been advised by the Audit and Risk Management Committee about that Committee's activities, and in particular through its annual report to the Board.

Regular meetings have been held with sponsors from the Department of Health that confirm the Authority's overall progress towards planned targets. I have clear performance management arrangements in place with directors at Executive Board level. They in turn have developed arrangements for managing responsibilities at divisional level – a balance between empowering experienced teams with detailed business knowledge whilst making clear accountabilities for delivery of agreed objectives.

Internal audit arrangements have been strengthened and harmonised during the Authority's first year:

- A Head of Internal Audit and Risk Management has been appointed to standardise audit and risk management across the NHSBSA;

- Using existing providers a comprehensive programme of internal audit projects has been undertaken to give the Authority independent assurance that controls are in place and functioning;
- Going forward, the arrangements for internal audit have been rationalised considerably through the appointment of PwC as internal audit contractors to the Authority from 1 April 2007.

In summary, the review above has given me significant assurance that the divisions were generally maintaining the good systems of internal control that they previously had in place as statutory bodies. During 2006/07, the Authority has established itself, assumed responsibility for 5 diverse business units, met all significant business objectives whilst the control environment has remained strong in most areas and been further developed at a corporate level.

### **Significant control issues**

A number of control issues were identified at the Pensions Division by management, internal audit and the NAO. These related to the quality of data held by the Division in relation to the student bursaries that it administers for the NHS, and an error in the process of awarding injury benefits to scheme members. The need for increased control at employing NHS bodies around the integrity of pension information (outside the responsibility of the NHSBSA) has also been recognised, and the wider NHS is making arrangements for increased reporting and accountability. The NHSBSA has moved quickly to strengthen management arrangements at the Division and a new team is beginning to improve the situation there.

Governance arrangements for the CFSMS are currently under review with the Department of Health. Accountabilities are being clarified and more explicit management arrangements will be in place for 2007/08.

**Nick Scholte**  
**Chief Executive**  
**NHS Business Services Authority**  
**11 July 2007**

## **AUDIT CERTIFICATE**

### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the NHS Business Services Authority (NHSBSA) for the year ended 31 March 2007 under the National Health Service Act 2006. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### **Respective responsibilities of the Chief Executive and auditor**

The Chief Executive, as Accounting Officer, is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the National Health Service Act 2006 and Secretary of State directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and Secretary of State directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Introduction to Accounts, Function and Vision and Management Commentary is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

## **Basis of audit opinion**

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

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

However the evidence available to me to confirm that student bursaries were accurate and in accordance with scheme rules was limited in that it was not possible to obtain supporting evidence for a number of bursary awards paid in year, and there was no system of controls I could rely on for the purposes of my audit. There were no other satisfactory audit procedures I could adopt to confirm that these awards were accurate in accordance with scheme rules.

## **Qualified Opinions arising from a limitation in audit scope**

### **Audit Opinion**

In my opinion:

- except for any adjustments which might have been found to be necessary had I been able to obtain sufficient evidence concerning the accuracy of bursary awards in payment during the year, the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of the Treasury, of the state of the Authority's affairs as at 31 March 2007, and of its net resource outturn, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of the Treasury; and
- information given within the annual report which includes the Introduction to Accounts, Function and Vision and Management Commentary is consistent with the financial statements.

### **Audit Opinion on Regularity**

Except for the expenditure on bursary awards in year where I could not determine that awards were in accordance with the rules of the scheme, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitation on my work relating to expenditure on student bursary awards:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

Further details relating to student bursaries are set out in my report on page 35.

John Bourn  
Comptroller and Auditor General

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

18 July 2007

# **NHS Business Services Authority Administration Account 2006-07**

## **Report by the Comptroller and Auditor General**

### **Introduction**

1. The NHS Pensions Agency Special Health Authority became responsible for making grants to students under the NHS Bursary Scheme in England on 1 April 2004. The Agency became part of the new NHS Business Services Authority (NHSBSA) from 1 April 2006. The 2006-07 NHSBSA Administration Account includes the costs of administering the NHS Student Bursary Scheme, and in 2006-07, some £460 million was paid to students under the NHS Bursary scheme.
2. Under the scheme students attending approved diploma, degree and medical courses are eligible to receive bursary payments during the duration of their study. Payments typically cover study costs and living expenses and support for dependent relatives, and usually cover a period of between 1 and 6 years.

### **Audit Opinion**

3. I have qualified my opinion on the account because I am unable to confirm that NHSBSA has maintained proper accounting records for certain bursary payments and that I have received all the information and explanations I require for my audit. Specifically, the evidence made available by NHSBSA to support amounts recorded in the account for bursary payments totalling £460 million was limited to a significant degree.

### **Scope limitation**

4. I qualified my opinion on the NHS Pensions Agency 2005-06 Administration Account because the evidence available to support amounts recorded for bursary payments was limited. Analysis carried out by the Agency in 2005 and reviewed by the National Audit Office suggested that the majority of the missing documentation related to awards made in 2001-02 and 2002-03 but it was unable to establish whether the documentation had not been obtained, whether the documentation had been obtained but copies had not been retained on file, or whether the documentation had been mislaid during the intervening period.
5. During 2005-06 the Agency performed an audit of all 94,800 case files covering 115,400 award decisions made between 1999-00 and 2005-06. The number of unsupported cases found by the Agency was 9,321 (9 per cent). The missing documents ranged from:
  - forms of identity (51 per cent);
  - evidence of income (18 per cent);
  - proof of lone parent status (12 per cent);
  - birth certificates for dependants (9 per cent);
  - immigration status (6 per cent);
  - proof of marital status (3 per cent); and
  - proof of dependants' income (1 per cent).

6. In each case the Agency attempted to contact the student to confirm that their circumstances accord with the award decision. Replies were received from 4,141 (45 percent) of the 9,321 cases with missing documentation and 104 awards were identified as being substantially inaccurate. Recovery action was required for a total of £26,134 in respect of these cases. Due to difficulties in locating former students, the remaining 5,180 cases (55 per cent) were not pursued further. It is therefore not possible to determine the true extent of any over or underpayment that may have occurred in these cases. I previously reported in my 2005-06 report that the maximum extent of any overpayment could be around £20.7 million assuming all 5180 awards were inaccurate or not in accordance with scheme rules. In the context of these specific awards my staff have been informed that the maximum potential overpayment figure in respect of 2006-07 will be around £7.3m. This remains a significant figure because a high proportion of the awards in payment in 2005/06 continued to be in payment in 2006/07.
7. Further review in 2006-07 has indicated that missing documentation remains an ongoing issue. An internal management review reported in January 2007 highlighted that missing documentation rates remained at a level of 2.5%.
8. Since January 2007, the Student Grants Unit has taken steps to strengthen internal controls to ensure that all appropriate evidence to support award decisions is seen and retained. This includes Quality Assurance checks that were previously carried out retrospectively now being carried out in advance of payment, to avoid erroneous payments.
9. In light of ongoing issues associated with controls over bursary payments in the majority of 2006/07, the missing documentation in relation to awards from earlier years which are still in payment during 2006-07 and further issues relating to documentation supporting new awards made in 2006-07 I cannot determine that the relevant awards were made accurately and in accordance with scheme rules. This represents a significant limitation on the scope of my audit.
10. I note the continued steps being taken by the NHSBSA to further review the system of control in place which will ensure that the correct supporting evidence is collected and maintained for all new bursary awards. My staff will consider the impact of this as part of the 2007/08 audit.

John Bourn  
Comptroller and Auditor General

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

18 July 2007

**Operating Cost Statement for the year ended 31 March 2007**

	Notes	2006-07 £000	2005-06 £000
Programme costs	3.1	599,730	584,358
Operating income	5	(7,456)	(6,789)
<b>Net operating cost before interest</b>		<b>592,274</b>	<b>577,569</b>
<b>Interest payable</b>		<b>0</b>	<b>0</b>
<b>Net operating cost</b>		<b>592,274</b>	<b>577,569</b>
(Surplus)/Deficit from Supply Chain trading activity	2	(2,688)	(1,429)
<b>Net resource outturn</b>	4.1	<b>589,586</b>	<b>576,140</b>

All income and expenditure is derived from continuing operations

**Statement of Recognised Gains and Losses for the year ended 31 March 2007**

		2006-07 £000	2005-06 £000
Unrealised surplus/(deficit) on the revaluation of fixed assets	13.4, 13.5	0	(74)
Unrealised surplus/(deficit) on the indexation of fixed assets	13.4, 13.5	3,597	1,385
Receipt of Donated Assets	13.5	0	0
Fixed asset impairment losses	13.4, 13.5	0	0
Prior Period Adjustment		0	0
<b>Recognised gains and (losses) for the financial year</b>		<b>3,597</b>	<b>1,311</b>

The notes at pages 40 to 68 form part of these accounts.



**Balance Sheet as at 31 March 2007**

	Notes	31 March 2007 £000	31 March 2006 £000
<b>Fixed assets:</b>			
Intangible assets	6.1	5,281	3,045
Tangible assets	6.2	<u>35,066</u>	<u>63,694</u>
		<b>40,347</b>	<b>66,739</b>
<b>Debtors: amounts falling due after more than one year</b>	8	<b>1,180</b>	837
<b>Current assets:</b>			
Stocks	7	38,849	41,839
Debtors	8	82,816	78,031
Cash at bank and in hand		<u>16,497</u>	<u>158</u>
		<b>138,162</b>	<b>120,028</b>
<b>Creditors: amounts falling due within one year</b>	10.1	<b>(74,469)</b>	(44,846)
<b>Net current assets/(liabilities)</b>		<u><b>63,693</b></u>	<u>75,182</u>
<b>Total assets less current liabilities</b>		<u><b>105,220</b></u>	<u>142,758</u>
<b>Creditors: amounts falling due after more than one year</b>	10.2	<b>(274)</b>	(796)
<b>Provisions for liabilities and charges</b>	11	<b>(3,475)</b>	(18,625)
		<u><b>101,471</b></u>	<u>123,337</u>
<b>Taxpayers' equity</b>			
General fund	13.1	30,269	22,534
I & E reserve	13.2	64,384	61,696
Capital reserve	13.3	0	25,996
Revaluation reserve	13.4	6,818	13,111
Donated asset reserve	13.5	0	0
		<u><b>101,471</b></u>	<u>123,337</u>

*The notes at pages 40 to 68 form part of these accounts.*

**Nick Scholte**  
**Chief Executive and Accounting Officer**  
**11 July 2007**

**Cash Flow Statement for the year ended 31 March 2007**

	Notes	2006-07 £000	2005-06 £000
<b>Net cash (outflow) from operating activities</b>	14	<b>(571,249)</b>	<b>(571,143)</b>
<b>Servicing of finance</b>			
Interest paid		0	0
Interest elements of finance leases		0	0
<b>Net cash (outflow) from servicing finance</b>		<b>0</b>	<b>0</b>
<b>Capital expenditure and financial investment:</b>			
(Payments) to acquire intangible fixed assets		(3,188)	(2,688)
(Payments) to acquire tangible fixed assets		(8,321)	(4,932)
Receipts from disposal of intangible fixed assets		0	0
Receipts from disposal of tangible fixed assets		37,440	209
<b>Net cash inflow/(outflow) from investing activities</b>		<b>25,931</b>	<b>(7,411)</b>
<b>Net cash (outflow) before financing</b>		<b>(545,318)</b>	<b>(578,554)</b>
<b>Financing</b>			
Net Parliamentary funding	13.1, 13.3	561,439	577,357
Capital element of finance leases		0	0
Donations		0	0
<b>Increase/(decrease) in cash in the period</b>	9	<b>16,121</b>	<b>(1,197)</b>

*The notes at pages 40 to 68 form part of these accounts.*

## **Notes to the Accounts**

### **1 Accounting policies**

The financial statements have been prepared in accordance with the Government Financial Reporting 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 Conventions**

This account is prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets and stock where material, at their value to the business by reference to current cost. This is in accordance with directions issued by the Secretary of State for Health and approved by HM Treasury.

#### **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.

#### **1.2 Income**

Income is accounted for applying the accruals convention. The main source of funding for the non-trading divisions of the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 and 2 within an approved cash limit, which is credited to the general fund. Parliamentary funding is recognised in the financial period in which it is received.

Operating income within the non-trading divisions is income which relates directly to the operating activities of these divisions of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

The main source of funding for the Supply Chain trading division of the Authority is income from sales to NHS customers. Additional income comes from similar sales to non-NHS customers and from fees such as those received from the Department of Health for services provided.

#### **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 or capitalised if it relates to an asset.

## 1.4 Capital charges

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 cost of capital. The interest rate applied to capital charges in the financial year 2006-07 was 3.5% (2005-06 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

## 1.5 Fixed Assets

### a. Capitalisation

All assets falling into the following categories are capitalised:

- i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.
- iii Tangible assets which are capable of being used for more than one year, and they:
  - individually have a cost equal to or greater than £5,000;
  - collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
  - form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.
- iv Donated fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.

### b. Valuation

#### Intangible Fixed Assets

Intangible fixed assets held for operational use are valued at historical cost, except Research and Development which is revalued using an appropriate index figure. Surplus intangible assets are valued at the net recoverable amount.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

## **Tangible Fixed Assets**

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value each year. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

### **i Land and buildings (including dwellings)**

Valuations are carried out by the District Valuer of HM Revenue and Customs government department at five yearly intervals in accordance with FRS 15. Between valuations price indices appropriate to the category of asset are applied to arrive at the current value. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office. The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

To meet the underlying objectives established by the Department of Health the following accepted variations of the RICS Appraisal and Valuation Manual have been required:

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
- no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
- additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

- ii Operational equipment, other than IT equipment which is considered to have nil inflation, is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
- iv Subsequent revaluations to donated fixed assets are taken to the donated asset reserve.
- v All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

**c. Depreciation and Amortisation**

Depreciation is charged on each individual fixed asset as follows:

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.
- iv Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life:

	Years
Plant and machinery	5-15
Furniture and fittings	7-10
Transport Equipment	7
Information technology	5

## **1.6 Donated Fixed Assets**

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the Donated Asset Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Operating Cost Statement. Similarly, any impairment on donated assets charged to the Operating Cost Statement is matched by a transfer from the Donated Asset Reserve. On sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the General Fund.

## **1.7 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.

## **1.8 Losses and special payments**

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

Losses and special payments are charged to the relevant functional headings in the operating cost statement on an accruals basis, 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). However, note 19 is compiled directly from the losses and compensations register which is prepared on a cash basis.

## **1.9 Pension costs**

### **NHS Pension Scheme**

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period.

The Scheme is subject to a full valuation for FRS17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employer's contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions were based covered the period 1 April 1994 to 31 March 1999. Between valuations the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Business Services Authority – Pensions Division website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employers' contributions are set at 14% of pensionable pay with effect from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. Additional pension liabilities arising from early retirement are not funded by the scheme except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement account at the time the Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement is payable.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.



### **Principal Civil Service Pension Scheme**

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

#### **1.10 Research and Development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation should be calculated on the same basis as used for depreciation i.e. on a quarterly basis.

#### **1.11 Foreign exchange**

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used.

#### **1.12 Leases**

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

#### **1.13 Provisions**

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

## 2. Supply Chain Trading

The trading nature of NHS Supply Chain activity is such that it cannot be disclosed in full in the Authority's Operating Cost Statement and its standard associated notes. This note provides the equivalent level of detail relating to Supply Chain only.

For the first 6 months of the year the service was delivered in-house, and from 1 October 2006 the service was outsourced to an external provider. The split of income and expenditure between the in-house and outsourced provision is shown in Notes 2.1 and 2.2.

### 2.1 Surplus/(deficit) from Supply Chain Trading Activity

		6 months to 31 Mar 07	6 months to 30 Sep 06	2006-07	2005-06
	Notes	£000	£000	£000	£000
<b>Gross income</b>					
Sales to NHS Customers		400,325	385,624	<b>785,949</b>	763,689
Sales to Non-NHS Customers		11,753	11,591	<b>23,344</b>	18,404
Fees and other income		2,775	437	<b>3,212</b>	957
		<u>414,853</u>	<u>397,652</u>	<b>812,505</b>	<u>783,050</u>
<b>Cost of sales and administration</b>					
Cost of Sales		373,278	358,308	<b>731,586</b>	704,716
Administration	2.2	39,920	38,311	<b>78,231</b>	76,905
		<u>413,198</u>	<u>396,619</u>	<b>809,817</b>	<u>781,621</u>
<b>Net trading surplus for the period</b>		<b>1,655</b>	<b>1,033</b>	<b>2,688</b>	1,429

**2.2 Supply Chain administration expenditure**

		6 months to	6 months to	2006-07	2005-06
	Notes	31 Mar 07	30 Sep 06	2006-07	2005-06
		£000	£000	£000	£000
Non-executive members' remuneration		0	0	0	50
Other salaries and wages	2.3	0	17,485	17,485	34,456
Establishment expenses		0	0	0	0
Transport		0	8,914	8,914	17,327
Maintenance		0	470	470	1,006
External contractors: Main service provider contract		38,800	0	38,800	0
Distribution centre contract		0	2,964	2,964	5,755
Capital charges		1,070	2,279	3,349	4,514
Auditor's remuneration: Audit Fees		0	0	0	75
Other Fees *		0	0	0	0
Other finance costs: Change in the discount rate	11	0	0	0	523
Unwinding of discount	11	50	51	101	105
Redundancies		0	0	0	
Miscellaneous		0	6,148	6,148	13,094
		<u>39,920</u>	<u>38,311</u>	<u>78,231</u>	<u>76,905</u>

\* The Division did not make any payment to auditors for any non audit work.

## 2.3 Supply Chain Staff numbers and related costs

	<b>Total</b>	<b>Permanently employed staff</b>	<b>Other</b>	<b>2005-06</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Salaries and wages	<b>14,844</b>	14,295	549	29,060
Social security costs	<b>1,113</b>	1,113	0	2,103
Employer contributions to NHSPA	<b>1,469</b>	1,469	0	3,002
Other pension costs	<b>59</b>	59	0	291
	<b>17,485</b>	<b>16,936</b>	<b>549</b>	<b>34,456</b>

The Supply Chain Division cost of redundancies and early retirements as a result of reorganisation was £59,000.

The average number of employees during the year was:

	<b>Total</b>	<b>Permanently employed staff</b>	<b>Other</b>	<b>2005-06</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
1 April 2006 – 30 September 2006	<b>1488</b>	1488	0	
1 October 2006 – 31 March 2007	<b>0</b>	0	0	
Average	<b>744</b>	<b>744</b>	<b>0</b>	<b>1,474</b>

Note: Costs relating to agency staff are known and disclosed above, whole time equivalent numbers however are not available.

### Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £nil (2005-06: £nil).

### Retirements due to ill-health

During 2006-07 there were no early retirements from the Supply Chain Division on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £nil.

**3.1 Authority programme expenditure**

	Notes	2006-07 £000	2005-06 £000
Non-executive members' remuneration		112	229
Other salaries and wages	3.2	75,825	85,020
Supplies and services – general		4	7
Establishment expenses		11,384	14,994
Transport and moveable plant		942	1,174
Premises and fixed plant		14,280	14,309
External contractors		21,571	20,059
Capital: Depreciation and amortisation	6.1, 6.2	5,152	4,269
Impairments	6.1, 6.2	0	89
Capital charges interest		1,222	879
(Profit)/loss on disposal	6.4	100	18
		<b>6,474</b>	<b>5,255</b>
Other finance costs – unwinding of discount	11	291	430
– change in discount rate	11	0	1,396
Auditor's remuneration: Audit Fees		250	343
Auditor's remuneration: Other Fees *		0	0
Redundancies		1,681	3,054
Miscellaneous		6,683	5,383
NHS Bursary Scheme		460,233	432,705
		<b>599,730</b>	<b>584,358</b>

\* The Authority did not make any payments to Auditors for non audit work

**Miscellaneous** expenditure includes the following significant amounts:

	2006-07 £000	2005-06 £000
Professional fees	4,288	3,454
Notional fee for the audit of the Pension Scheme accounts	67	67
	<b>4,355</b>	<b>3,521</b>

**Authority programme expenditure** was split between the divisions as follows:

	2006-07 £000	2005-06 £000
Prescription Pricing	66,259	73,158
Corporate Services	7,669	4,855
Supply Chain retained office	686	0
Pensions	25,390	27,550
Dental Services	21,695	27,619
Counter Fraud and Security Management	17,798	18,471
	<b>139,497</b>	<b>151,653</b>
Student Bursaries	460,233	432,705
	<b>599,730</b>	<b>584,358</b>

**3.2 Staff numbers and related costs**

	<b>2006-07 Total £000</b>	<b>Permanently employed staff £000</b>	<b>Other £000</b>	<b>2005-06 £000</b>
Salaries and wages	<b>64,446</b>	59,410	5,036	71,904
Social security costs	<b>4,466</b>	4,466	0	4,983
Employer contributions to NHSPA	<b>6,123</b>	6,123	0	7,059
Other pension costs	<b>790</b>	790	0	1,074
	<b><u>75,825</u></b>	<b><u>70,789</u></b>	<b><u>5,036</u></b>	<b><u>85,020</u></b>

The SpHA cost of redundancies and early retirements as a result of reorganisation was £1,681k

The average number of employees during the year was:

	<b>Total Number</b>	<b>Permanently employed staff Number</b>	<b>Other Number</b>	<b>2005-06 Number</b>
Total	<b><u>2,985</u></b>	<u>2,819</u>	<u>166</u>	<u>3,761</u>

**Expenditure on staff benefits**

The amount spent on staff benefits during the year totalled £Nil (2005-06: £Nil).

**Retirements due to ill-health**

During 2006-07 there were 2 early retirements from the Special Health Authority on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £243,433.

**3.3 Better Payment Practice Code – measure of compliance**

	<b>Number</b>	<b>£000</b>
Total non NHS bills paid 2006-07	1,215,181	822,503
Total non NHS bills paid within target	<u>1,061,295</u>	<u>650,913</u>
Percentage of non NHS bills paid within target	<u>87.3%</u>	<u>79.1%</u>

**Supply Chain performance**

Total non NHS bills paid 2006-07	1,192,474	752,543
Total non NHS bills paid within target	<u>1,039,657</u>	<u>583,598</u>
Percentage of non NHS bills paid within target	<u>87.2%</u>	<u>77.6%</u>

**Other divisions performance**

Total non NHS bills paid 2006-07	22,707	69,960
Total non NHS bills paid within target	<u>21,638</u>	<u>67,315</u>
Percentage of non NHS bills paid within target	<u>95.3%</u>	<u>96.2%</u>

	<b>Number</b>	<b>£000</b>
Total NHS bills paid 2006-07	186	2,237
Total NHS bills paid within target	<u>155</u>	<u>2,007</u>
Percentage of NHS bills paid within target	<u>83.3%</u>	<u>89.7%</u>

**Supply Chain performance**

Total NHS bills paid 2006-07	16	323
Total NHS bills paid within target	<u>8</u>	<u>246</u>
Percentage of NHS bills paid within target	<u>50.0%</u>	<u>76.2%</u>

**Other divisions performance**

Total NHS bills paid 2006-07	170	1,914
Total NHS bills paid within target	<u>147</u>	<u>1,761</u>
Percentage of NHS bills paid within target	<u>86.5%</u>	<u>92.0%</u>

**The Late Payment of Commercial Debts (Interest) Act 1998**

No interest was paid under the legislation and no compensation payments were made.

**4.1 Reconciliation of net operating cost to net resource outturn**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Net operating cost	<b>592,274</b>	577,569
(Surplus)/Deficit from SCMD trading activity	<b>(2,688)</b>	(1,429)
<b>Net resource outturn</b>	<b>589,586</b>	576,140
<b>Revenue resource limit</b>	<b>589,802</b>	578,180
<b>(Over)/under spend against revenue resource limit</b>	<b>216</b>	2,040

**4.2 Reconciliation of gross capital expenditure to capital resource limit**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Gross capital expenditure	<b>11,307</b>	8,039
NBV of assets disposed	<b>(35,554)</b>	(233)
(loss) on disposal of donated assets	<b>0</b>	0
Capital grants	<b>0</b>	0
Donations	<b>0</b>	0
<b>Net capital resource outturn</b>	<b>(24,247)</b>	7,806
Capital resource limit	<b>(20,366)</b>	7,938
<b>(Over)/under spend against limit</b>	<b>3,881</b>	132



## 5 Operating income

Operating income analysed by classification and activity, is as follows:

	<b>Appropriated in aid £000</b>	<b>Not Appropriated in aid £000</b>	<b>Total £000</b>	2005-06 £000
Programme income:				
Fees & charges to external customers	3,230	0	<b>3,230</b>	2,699
Income received from Scottish Parliament	1,030	0	<b>1,030</b>	986
Income received from National Assembly for Wales	798	0	<b>798</b>	824
Income received from Northern Ireland Assembly	0	0	<b>0</b>	0
Income received from other Departments, etc	300	396	<b>696</b>	702
Other	421	1,281	<b>1,702</b>	1,578
<b>Total</b>	<b>5,779</b>	<b>1,677</b>	<b>7,456</b>	<b>6,789</b>

Operating income was split between the divisions as follows:

	<b>Appropriated in aid £000</b>	<b>Not Appropriated in aid £000</b>	<b>Total £000</b>	2005-06 £000
Prescription Pricing	2,192	26	<b>2,218</b>	1,900
Corporate Services	86	1,176	<b>1,262</b>	1,562
Supply Chain retained office	1,200	0	<b>1,200</b>	0
Pensions	418	0	<b>418</b>	506
Dental Services	769	79	<b>848</b>	623
Counter Fraud and Security Management	1,114	396	<b>1,510</b>	2,198
	<b>5,779</b>	<b>1,677</b>	<b>7,456</b>	<b>6,789</b>

**6.1 Intangible fixed assets**

	Software licences £000	Licences and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 31 March 2006	4,469	0	0	70	4,539
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Other revaluations	0	0	0	0	0
Additions – purchased	156	0	0	2,993	3,149
Additions – donated	0	0	0	0	0
Reclassification	(47)	0	0	47	0
Disposals	(133)	0	0	0	(133)
<b>Gross cost at 31 March 2007</b>	<b>4,445</b>	<b>0</b>	<b>0</b>	<b>3,110</b>	<b>7,555</b>
Accumulated amortisation at 31 March 2006	1,462	0	0	32	1,494
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Other revaluations	0	0	0	0	0
Charged during the year	810	0	0	13	823
Reclassification	0	0	0	0	0
Disposals	(43)	0	0	0	(43)
<b>Accumulated amortisation at 31 March 2007</b>	<b>2,229</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>2,274</b>
Net book value:					
Purchased at 31 March 2006	3,007	0	0	38	3,045
Donated at 31 March 2006	0	0	0	0	0
Total at 31 March 2006	3,007	0	0	38	3,045
<b>Net book value:</b>					
<b>Purchased at 31 March 2007</b>	<b>(2,216)</b>	<b>0</b>	<b>0</b>	<b>3,065</b>	<b>5,281</b>
<b>Donated at 31 March 2007</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total at 31 March 2007</b>	<b>2,216</b>	<b>0</b>	<b>0</b>	<b>3,065</b>	<b>5,281</b>
Net book value at 31 March 2006					
Supply Chain	71	0	0	0	71
Other Divisions	2,936	0	0	38	2,974
	3,007	0	0	38	3,045
<b>Net book value at 31 March 2007</b>					
Supply Chain	0	0	0	0	0
Other Divisions	2,216	0	0	3,065	5,281
	2,216	0	0	3,065	5,281

## 6.2 Tangible fixed assets

	Land	Buildings exc dwellings	Dwellings	Assets under constr. + poa	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2006	14,856	33,061	0	233	4,369	1,106	27,378	2,684	<b>83,687</b>
Additions - purchased	0	46	0	0	116	77	7,893	26	<b>8,158</b>
Additions - donated	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassification	0	0	0	(233)	0	0	233	0	0
Indexation	848	2,643	0	0	121	31	0	66	<b>3,709</b>
Other in year revaluations	0	0	0	0	0	0	0	0	0
Disposals	(10,698)	(22,679)	0	0	(2,022)	(347)	(2,207)	(151)	<b>(38,104)</b>
<b>Gross cost at 31 March 2007</b>	<b>5,006</b>	<b>13,071</b>	<b>0</b>	<b>0</b>	<b>2,584</b>	<b>867</b>	<b>33,297</b>	<b>2,625</b>	<b>57,450</b>
Accumulated depreciation at 31 March 2006		0	0		2,495	648	15,689	1,161	<b>19,993</b>
Charged during the year		826	0		428	122	3,309	234	<b>4,919</b>
Impairments		0	0		0	0	0	0	0
Reclassification		0	0		0	0	0	0	0
Indexation		0	0		69	18	0	25	<b>112</b>
Other in year revaluation		0	0		0	0	0	0	0
Disposals		(431)	0		(765)	(320)	(973)	(151)	<b>(2,640)</b>
<b>Accumulated depreciation at 31 March 2007</b>		<b>395</b>	<b>0</b>		<b>2,227</b>	<b>468</b>	<b>18,025</b>	<b>1,269</b>	<b>22,384</b>
Net book value: Purchased at 31 March 2006	14,856	33,061	0	233	1,874	458	11,689	1,523	63,694
Donated at 31 March 2006	0	0	0	0	0	0	0	0	0
Total at 31 March 2006	14,856	33,061	0	233	1,874	458	11,689	1,523	63,694
<b>Net book value: Purchased at 31 March 2007</b>	<b>(5,006)</b>	<b>12,676</b>	<b>0</b>	<b>0</b>	<b>357</b>	<b>399</b>	<b>15,272</b>	<b>1,356</b>	<b>35,066</b>
<b>Donated at 31 March 2007</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total at 31 March 2007</b>	<b>5,006</b>	<b>12,676</b>	<b>0</b>	<b>0</b>	<b>357</b>	<b>399</b>	<b>15,272</b>	<b>1,356</b>	<b>35,066</b>
Net book value at 31 March 2006									
Supply Chain	10,120	20,664	0	0	1,557	0	1,160	0	33,501
Other Divisions	4,736	12,397	0	233	317	458	10,529	1,523	30,193
	14,856	33,061	0	233	1,874	458	11,689	1,523	63,694
<b>Net book value at 31 March 2007</b>									
Supply Chain	0	0	0	0	0	0	0	0	0
Other Divisions	5,006	12,676	0	0	357	399	15,272	1,356	35,066
	<b>5,006</b>	<b>12,676</b>	<b>0</b>	<b>0</b>	<b>357</b>	<b>399</b>	<b>15,272</b>	<b>1,356</b>	<b>35,066</b>

The Authority held no assets under finance leases or hire purchase contracts during the year.

### 6.3 Net Book Value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2007 comprises:

	<b>31 March 2007 £000</b>	31 March 2006 £000
Freehold	<b>17,253</b>	47,168
Long leasehold	<b>33</b>	0
Short leasehold	<b>396</b>	749
	<b><u>17,682</u></b>	<u>47,917</u>

### 6.4 Profit/(loss) on disposal of fixed assets

	<b>2006-07 £000</b>	2005-06 £000
Profit on disposal of intangible fixed assets	<b>0</b>	0
(Loss) on disposal of intangible fixed assets	<b>(90)</b>	0
Profit on disposal of land and buildings	<b>1,966</b>	0
(Loss) on disposal of land and buildings	<b>(143)</b>	0
Profit on disposal of plant and equipment	<b>391</b>	7
(Loss) on disposal of plant and equipment	<b>(238)</b>	(31)
	<b><u>1,886</u></b>	<u>(24)</u>

Profit/(loss) was split between the divisions as follows:

	<b>31 March 2007 £000</b>	31 March 2006 £000
Supply Chain	<b>1,986</b>	(6)
Other Divisions	<b>(100)</b>	(18)
	<b><u>1,886</u></b>	<u>(24)</u>

**7 Stocks and work in progress**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Raw materials and consumables	<b>0</b>	216
Work in progress	<b>0</b>	0
Finished processed goods	<b>38,849</b>	41,623
	<b>38,849</b>	41,839

**Stocks** were split between the divisions as follows:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Supply Chain	<b>38,849</b>	41,722
Other Divisions	<b>0</b>	117
	<b>38,849</b>	41,839

**8 Debtors****8.1 Amounts falling due within one year**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
NHS debtors	<b>63,724</b>	59,043
Provision for irrecoverable debts	<b>(4,263)</b>	(4,048)
Prepayments	<b>3,826</b>	7,623
Accrued income	<b>2,121</b>	462
Capital debtors	<b>0</b>	0
Other debtors	<b>17,408</b>	14,951
	<b>82,816</b>	78,031

**8.2 Amounts falling due after more than one year**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
NHS debtors	0	0
Prepayments	0	0
Accrued income	0	0
Capital debtors	0	0
Other debtors	<u>1,180</u>	<u>837</u>
	<b>1,180</b>	<b>837</b>
<b>Total debtors</b>	<b><u>83,996</u></b>	<b><u>78,868</u></b>

**Debtors** were split between the divisions as follows:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Supply Chain	<b>72,828</b>	63,338
Other Divisions	<u>11,168</u>	<u>15,530</u>
	<b>83,996</b>	<b>78,868</b>

All Supply Chain debtors fall due within one year.

**9 Analysis of changes in cash**

	At 31 March 2006	<b>Change during the year</b>	At 31 March 2007
	£000	£000	£000
Cash at OPG	135	<b>16,105</b>	<b>16,240</b>
Cash at commercial banks and in hand	(40)	<b>16</b>	<b>(24)</b>
	<u>95</u>	<b><u>16,121</u></b>	<b><u>16,216</u></b>

**Cash movements** were split between the divisions as follows:

	At 31 March 2006	<b>Change during the year</b>	At 31 March 2007
	£000	£000	£000
Supply Chain	63	<b>16,000</b>	<b>16,063</b>
Other Divisions	32	<b>121</b>	<b>153</b>
	<u>95</u>	<b><u>16,121</u></b>	<b><u>16,216</u></b>

**10 Creditors:****10.1 Amounts falling due within one year**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Overdrafts	<b>280</b>	63
NHS creditors	<b>1,398</b>	957
Capital creditors	<b>25</b>	227
Tax	<b>3</b>	144
Social Security	<b>12</b>	77
Other creditors	<b>55,994</b>	32,039
Accruals	<b>14,974</b>	10,715
Deferred income	<b>1,783</b>	624
	<b><u>74,469</u></b>	<u>44,846</u>

**Creditors** were split between the divisions as follows:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Supply Chain	<b>63,373</b>	38,147
Other Divisions	<b>11,096</b>	6,699
	<b><u>74,469</u></b>	<u>44,846</u>

**10.2 Amounts falling due after more than one year**

	<b>£000</b>	£000
NHS creditors	<b>13</b>	6
Capital creditors	<b>0</b>	0
Tax	<b>0</b>	0
Social Security	<b>0</b>	0
Other creditors	<b>0</b>	0
Accruals	<b>0</b>	0
Deferred income	<b>261</b>	790
	<b><u>274</u></b>	<u>796</u>

**Creditors** were split between the divisions as follows:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Supply Chain	<b>0</b>	0
Other Divisions	<b>274</b>	796
	<b><u>274</u></b>	<u>796</u>

**10.3 Finance lease obligations**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Leases Payable:		
Within one year	0	0
Between one and five years	0	0
After five years	0	0
Gross obligation	<u>0</u>	<u>0</u>
Finance charges allocated to future periods	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>

**11 Provisions for liabilities and charges**

	<b>Pensions for former staff £000</b>	<b>Legal claims £000</b>	<b>Other £000</b>	<b>Total £000</b>
At 31 March 2006	17,926	245	454	18,625
Arising during the year	141	98	5	244
Utilised during the year	(15,406)	(79)	(75)	(15,560)
Reversed unused	(67)	(67)	(92)	(226)
Change in the discount rate	0	0	0	0
Unwinding of discount	392	0	0	392
<b>At 31 March 2007</b>	<u><b>2,986</b></u>	<u><b>197</b></u>	<u><b>292</b></u>	<u><b>3,475</b></u>
<b>Expected timing of cash flows:</b>				
Within 1 year	395	197	0	592
1-5 years	1,709	0	292	2,001
Over 5 years	882	0	0	882

**Provisions** were split between the divisions as follows:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Supply Chain	<b>1,647</b>	5,280
Other Divisions	<b>1,828</b>	13,345
	<u><b>3,475</b></u>	<u>18,625</u>



**12 Movements in working capital other than cash**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Increase/(decrease) in stocks	<b>(2,990)</b>	(5,689)
Increase/(decrease) in debtors	<b>5,128</b>	3,743
(Increase)/decrease in creditors	<b>(29,087)</b>	5,052
	<b>(26,949)</b>	3,106

**13 Movements on reserves****13.1 General Fund**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Balance at 31 March 2006	22,534	22,508
Net operating costs for the year	<b>(592,274)</b>	(577,569)
Net Parliamentary funding	<b>598,696</b>	576,557
Transfer of realised profits/losses from revaluation reserve	<b>24</b>	38
Non-cash items: Capital charge interest	<b>1,222</b>	879
Notional costs	<b>67</b>	121
<b>Balance at 31 March 2007</b>	<b>30,269</b>	22,534

**13.2 I&E reserve**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Balance at 31 March 2006	61,696	60,267
Net surplus for the year	<b>2,688</b>	1,429
Transfer of realised profits/losses from revaluation reserve	<b>0</b>	0
<b>Balance at 31 March 2007</b>	<b>64,384</b>	61,696

**13.3 Capital reserve**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Balance at 31 March 2006	25,996	26,178
Net Parliamentary funding	<b>(37,257)</b>	800
Depreciation of fixed assets	<b>(591)</b>	(1,084)
Profit/(Loss) on sale of fixed assets	<b>1,986</b>	(6)
Transfer of realised profits/losses from revaluation reserve	<b>9,866</b>	108
<b>As at 31 March 2007</b>	<b>0</b>	25,996

<b>13.4 Revaluation reserve</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Balance at 31 March 2006	13,111	11,946
Impairments	0	0
Indexation of fixed assets	<b>3,597</b>	1,385
Revaluation of fixed assets	0	(74)
Transfer to general fund/capital reserve of realised elements	<b>(9,890)</b>	(146)
<b>Balance at 31 March 2007</b>	<b>6,818</b>	13,111

<b>13.5 Donated asset reserve</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Balance at 31 March 2006	0	0
Impairments	0	0
Other revaluations of fixed assets	0	0
Other indexation of fixed assets	0	0
Receipt of donated assets	0	0
Depreciation of donated assets	0	0
Disposal of fixed assets	0	0
<b>As at 31 March 2007</b>	<b>0</b>	0

#### **14 Reconciliation of operating costs to operating cash flows**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Net operating cost before interest for the year	<b>592,274</b>	577,569
SCMD operating surplus for the year	2.1 <b>(2,688)</b>	(1,429)
Adjust for non-cash transactions	3.1 <b>(6,541)</b>	(5,376)
Adjust for movements in working capital other than cash	12 <b>(26,949)</b>	3,106
(Increase)/decrease in provisions	11 <b>15,153</b>	(2,727)
Transfer from donated asset reserve	13.5 <b>0</b>	0
<b>Net cash outflow from operating activities</b>	<b>571,249</b>	571,143

#### **15 Contingent liabilities**

At 31 March 2007, there were no known contingent liabilities (2005-06: £nil)

## 16 Capital commitments

At 31 March 2007 the value of contracted capital commitments was £nil (2005-06: £12,000).

## 17 Commitments under operating leases

Expenses of the Authority include the following in respect of hire and operating lease rentals:

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Hire of plant and machinery	<b>8</b>	1,225
Other operating leases	<b>3,729</b>	4,174
	<b>3,737</b>	5,399

Commitments under non-cancellable operating leases:

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

<b>Land and buildings</b>		<b>£000</b>	£000
Operating leases which expire:	within 1 year	<b>276</b>	32
	between 1 and 5 years	<b>1,294</b>	2,894
	after 5 years	<b>686</b>	700
		<b>2,256</b>	3,626
<b>Other leases</b>			
Operating leases which expire:	within 1 year	<b>11</b>	29
	between 1 and 5 years	<b>47</b>	1,233
	after 5 years	<b>0</b>	0
		<b>58</b>	1,262

## 18 Other commitments

The Pensions Division of the Authority has entered into non-cancellable contracts (which are not operating leases) for the provision of contracted out services totalling £83.7m over 10 years as at 31 March 2007, (2006: £92.6m).

On 1 January 2003 the Dental Practice Division entered into two seven year contracts, one with IBM UK Ltd for computing services and one with R R Donnelly Ltd (formerly Astron Document Management Ltd) for data capture services. The computing services contract involves payments of £31.9 million over the seven years and is subject to increases in line with inflation. The data capture contract involves payments of £7.8 million over seven years and adjustments are dependent on the volumes processed. Both contracts have arrangements within them whereby after 4 years or more, on giving formal notice, the Dental Practice Division can make termination payments to terminate the contracts. On 1 February 2006 the contract with R R Donnelly Ltd was extended and 96 staff transferred under the TUPE arrangements. The extension involves payments of £17.8 million in the period to 31 December 2009.

The NHSBSA has entered into a ten year contract with DHL to provide supplies and services to the NHS.

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## **19 Losses and special payments**

There were 11,889 cases of losses and special payments (Prior year : 3,682 cases) totalling £2,140,559 (Prior year £1,159,221) approved during 2006-07.

Note: the total cost included in this note are on a cash basis and will not reconcile to the amounts in the notes to the accounts which are prepared on an accruals basis.

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## **20 Related parties**

The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department.

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## **21 Post balance sheet events**

There have been no adjusting or non-adjusting post balance sheet events.

The Annual Report and Accounts has been authorised for issue on 18 July 2007 by the NHSBSA Chief Executive and Accounting Officer.

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## 22 Financial instruments

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 Special Health Authority 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 Special Health Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Special Health Authority in undertaking its activities.

### Liquidity risk

The Special Health Authority's net operating costs are financed from resources voted annually by Parliament. The Special Health Authority largely finances its capital expenditure from funds made available from Government under an agreed capital resource limit. The NHS Business Services Authority is not, therefore, exposed to significant liquidity risks.

### Interest-rate risk

100% of the Authority's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The NHS Business Services Authority is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Authority's financial assets and liabilities:

#### Financial assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non interest bearing
					Weighted average interest rate	Weighted average period for which fixed years	Weighted average term years
	£000	£000	£000	£000	%		
At 31 March 2007							
Sterling	17,677	0	0	17,677			
Other	0	0	0	0			
Gross financial assets	17,677	0	0	17,677			
At 31 March 2006							
Sterling	995	0	0	995			
Other	0	0	0	0			
Gross financial assets	995	0	0	995			

**Financial liabilities**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non interest bearing
					Weighted average interest rate	Weighted average period for which fixed years	Weighted average term years
	£000	£000	£000	£000	%		
At 31 March 2007							
Sterling	4,029	0	4,029	0	2.20%		
Other	0	0	0	0			
Gross financial liabilities	4,029	0	4,029	0			
At 31 March 2006							
Sterling	18,688	0	18,688	0	3.50%		
Other	0	0	0	0			
Gross financial liabilities	18,688	0	18,688	0			

**Foreign currency risk**

The Authority has negligible foreign currency income or expenditure.

**Fair values**

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2007 is as follows:

	Book value £000	Fair value £000	Basis of fair valuation
<b>Financial assets:</b>			
Cash	16,497	16,497	
Debtors over 1 year	1,180	1,180	
Total	17,677	17,677	
<b>Financial liabilities:</b>			
Overdraft	280	280	
Creditors over 1 year:			
Early retirements	274	274	note a
Finance leases	0	0	
Provisions under contract	3,475	3,475	note b
Loans	0	0	
Total	4,029	4,029	

Notes:

(a) Fair value is not significantly different from book value since interest of 9% is paid on early retirement creditors.

(b) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted at the Treasury rate of 2.2% in real terms.

**23 Intra-government balances**

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
Balances with other central government bodies	10,092	–	1,290	13
Balances with local authorities	4	–	–	–
Balances with NHS Trusts	54,530	–	354	–
Balances with public corporations and trading funds	25	–	–	–
Balances with bodies external to government	18,165	1,180	72,545	261
<b>At 31 March 2007</b>	<b>82,816</b>	<b>1,180</b>	<b>74,189</b>	<b>274</b>
Balances with other central government bodies	5,637	–	1,072	3
Balances with local authorities	–	–	5	–
Balances with NHS Trusts	55,857	–	617	3
Balances with public corporations and trading funds	204	–	–	–
Balances with bodies external to government	16,333	837	43,089	790
At 31 March 2006	78,031	837	44,783	796



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