



*Logistics Authority*

**ANNUAL REPORT  
AND ACCOUNTS**

2005-06



# NHS Logistics Authority

## **Annual Report and Accounts 2005-06**

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# The NHS Logistics Authority

**The NHS Logistics Authority** was a Special Health Authority, and as such was one of more than 600 separate organisations that make up the National Health Service (NHS). The Authority was formed in April 2000, as a result of the 1998 Cabinet Office Review of NHS Procurement. The NHS Logistics Authority worked to support the operational activity of the NHS by providing best value for the NHS in the supply of goods and supply chain services required in the support of health care. The role and activities of NHS Logistics remains critical to the NHS and these have been transferred to the NHS Business Services Authority. Specifically, they are

- to provide the main supply channel for consumable healthcare products to the English NHS
- to provide a range of modern supply chain services to support the delivery of quality health care
- to support the development of a world-class supply chain across the NHS.

The service is provided from six distribution centres located throughout England at: Alfreton in Derbyshire; Runcorn in Cheshire; Normanton in West Yorkshire; Maidstone in Kent; Bury St Edmunds in Suffolk, and Bridgwater in Somerset. The Bridgwater Distribution Centre is operated by Exel, who work together with NHS Logistics to provide a service to the NHS in the South and West of England under a Public Private Partnership arrangement.

The work of the Authority was supported by a structure of seven departments: Customer and Service Development, Operations, Supply Chain and Corporate Services, Human Resources, Finance, Information Services and Audit and Quality Assurance. On 1 January 2006, an additional Procurement Directorate was established as the Authority took over responsibility for its own procurement activities from the NHS Purchasing and Supply Agency. Each of these departments was headed by a senior manager who reported to the Chief Executive.

## Arm's Length Body Review and Market Testing of the NHS Logistics' consumable supply channel

'An Implementation Framework for Reconfiguring the Department of Health (DH) Arm's Length Bodies' was published by the Department on 30 November 2004. This document outlined the conclusions and recommendations from the Department's Arm's Length Body Review. In terms of how they are likely to impact on NHS Logistics, they are in summary:

- that NHS Logistics provides considerable value to the NHS and the policy is to grow the activity to generate further benefits
- that the activities of NHS Logistics would be market tested and the results of this process will be known by September 2005
- that the market testing process would assess whether the NHS Logistics' function should be outsourced to the private sector

- that the NHS Logistics Authority would be dissolved as a legal entity by 1 April 2006.

On the dissolution of the NHS Logistics Authority on 31 March 2006, the functions, responsibilities, assets and employees transferred to the NHS Business Services Authority. From 1 April, the NHS Logistics' business continues to operate as a division of the NHS Business Services Authority.

In March 2006, Ministers accepted that there was, subject to final negotiations with the preferred bidder, a compelling case for outsourcing. The Department of Health expect a final contract to be awarded with the contracting out of business activities during the summer of 2006.

The contract will be managed by a newly formed Supply Chain Management Division, a small informed buyer/contract management body, within the NHS Business Services Authority.

# The Authority Board and its Committees

## **The Authority Board consisted of the Chairman, five Non Executive members and five Executive Members, including the Chief Executive.**

The Board was the focal point for the corporate governance of the organisation: approving policy, strategy, business plans, budgets, annual accounts, disposals and acquisitions of land and property, as well as financial and performance reporting arrangements. The Board also ratified the organisation's Standing Orders. The Chairman and Non Executive Members were responsible for monitoring the executive management of the organisation.

Appointments to the Board were made in line with the principles set out in guidance by the Department of Health in response to the recommendations of the Nolan Committee. Non Executive Members, including the Chairman, were appointed on fixed term contracts.

The Chief Executive was appointed on a permanent contract by the Authority, with the approval of the Secretary of State for Health. Executive members of the Authority were appointed by the Authority, based on the recommendations of the Chief Executive.

Continued appointment for all members of the Authority was conditional upon ongoing satisfactory performance appraisals.

Authority meetings in 2005-06 were held on a monthly basis at the Alfreton Headquarters, except in August when there was no meeting.

In accordance with the Public Bodies (Admission to Meetings) legislation, Board meetings were publicised and members of the public were entitled to attend the meetings, with the exception of any items of a confidential nature.

The Authority's Annual Accounts are laid before Parliament.

## ***The Audit Committee***

The Audit Committee met on five occasions, and consisted of the five Non Executive Members of the Authority, excluding the Chairman. The Director of Finance and the Head of Internal Audit were normally invited to attend, and there was usually a representative from the Authority's internal and external auditors. The Audit Committee could request the attendance of any employee, where they decided that attendance would advance the Committee in the discharge of their duties.

The Committee was tasked with ensuring that effective internal controls and management reporting systems were in place, and that financial reporting processes produced high quality, objective reports on behalf of the Authority. The Committee also ensured that an effective risk management regime had been properly integrated with the decision making and management processes. The Audit Committee oversaw the effective operation of internal audit.

## ***The Remuneration and Terms of Service Committee***

The Remuneration and Terms of Service Committee met on four occasions and comprised six Non Executive Members of the Authority, including the Chairman. Meeting as required, but at least annually, the Committee's role was to advise the Authority on appropriate remunerations and terms of service for the Chief Executive and Directors. Further details are disclosed in the Remuneration Report on pages 18 to 20.

## ***Members' interests***

A complete and up-to-date record of the interests of all members of the NHS Logistics Authority was maintained within the Register of Members' Interests. The Register was reviewed by the Authority at least annually until 31 March 2006.

# Directors

## **Chairman**

**Philip J Champ** was appointed as Chairman of the NHS Logistics Authority on 1 April 2001. He was previously Chairman of Rampton Hospital Authority, and retired from that post on 31 March 2001 when Rampton merged with neighbouring NHS Trusts.

During his time as chair of the hospital authority, Mr Champ supported the modernisation of care practice and staffing, delivering an improved service to patients. Mr Champ is a former Director of Marketing, and Director of Strategy and Corporate Affairs with East Midlands Electricity, and was until April 2004, Chairman of the BEAB (British Electrotechnical Approvals Board). He is also a former president of the Nottinghamshire Chamber of Commerce and Industry.

## **Chief Executive**

**Barry Mellor** was appointed to the post of Chief Executive from 1 August 2001, and came to the NHS Logistics Authority after a 32 year career in the gas supply industry. He joined the East Midlands Gas Board in 1969, as a graduate trainee, before progressing to senior roles in customer services, IT and public relations within British Gas. In 1997 he was appointed Head of Procurement and Logistics at Transco, with the remit of creating a new organisation to provide an integrated supply chain management service across Transco UK.

Mr Mellor has an MBA from Newcastle University and an MSc from Sheffield Hallam University. He is a fellow of the Chartered Institute of Logistics, a member of the UK Logistics Directors Forum and a member of the Chartered Institute of Purchasing and Supply. He is Chairman of the NHS Supply Chain Forum and Public Sector Supply Chain Forum.

# Non Executive Members

**Sheila Reiter OBE** became a Non Executive Member of the former NHS Supplies Authority in October 1999, and was Vice Chairman of the NHS Logistics Authority. She is currently Chairman of WaterVoice Wessex Customer Service Committee, and has also been a Member of the Parole Board, a Vice Chairman of the Royal United Hospital Bath NHS Trust, and a Magistrate. She is a former Managing Director of Jaeger Ladieswear. She is also Trustee of Dorothy House Hospice which is a voluntary post.

**David Hatherall** became a Non Executive Member of the former NHS Supplies Authority in October 1999. He is an International Management Consultant and fellow of the Chartered Institute of Purchasing and Supply. Formerly head of all Materials Management functions for Hoechst UK Limited, he has a background in supply/logistics over many years as a practitioner and academic.

**Stella Earnshaw** became a Non Executive Member of the NHS Logistics Authority in October 2001, and is Chairman of the Audit Committee. She is currently a Non Executive Director of Hereford and Worcester Ambulance NHS Trust and a Director of Partnerships for School and is Chair of both Audit Committees. She is a Fellow of the Chartered Association of Certified Accountants. She was formerly Head of the Regional Finance Unit in Shell International

and a Finance Director in Shell UK. She has also been a Non Executive Director of the Mid Sussex NHS Trust and the Funding Agency for Schools.

**Pat Zadora MBE** was appointed Non Executive Member of the NHS Logistics Authority in October 2001. She is currently Chairman of EMBF, a Member of the East Midlands Regional Assembly Scrutiny Board and Chairman of the East Midlands Business Crime Forum. She was formerly a partner in a UK based Management Consultancy, Chairman of an NHS Trust, the NHS Trust Federation Trent Region and the East Midlands Regional Assembly Public Health Task Group. She has held numerous Directorships and Chairmanships on private and public sector boards.

**James Spittle** was appointed Non Executive Member of the NHS Logistics Authority in March 2004. He is currently Supply Chain Director, UK & Ireland, for Dixon Stores Group International (DSGI) and Chairman of GS1UK. He was formerly Group Supply Chain Director for Whitbread Plc, Kingfisher Plc, and Divisional Director of Tesco Plc. He is also a Council Board Member and Vice President of the Chartered Institute of Logistics and Transport, and a Member of the Cranfield University Supply Chain Advisory Board.

# Executive Directors

## ***Finance and Information***

**Glenn Harris** joined the former NHS Supplies Authority in 1993, and was appointed Head of Finance for the Wholesaling Division in 1998. On 1 April 2000 he took up post as Director of Finance and Performance with the newly formed NHS Logistics Authority. Before joining the health service he spent six years with the British Coal Corporation. He is a Member of the Chartered Institute of Management Accountants.

Glenn Harris left the NHS Logistics Authority on 27 May 2005.

**Colin Farmer** was appointed Acting Director of Finance in May 2005 and subsequently Director of Finance in February 2006. He has worked for the NHS Logistics Authority in a variety of financial management roles for over 10 years and more recently, as the Authority's Business and Performance Manager. Prior to joining the health service, Mr Farmer spent nine years in private sector logistics, primarily with United Parcel Service. He is a fellow of the Association of Chartered Certified Accountants.

## ***Customer and Service Development***

**Melanie Hall** joined the NHS Logistics Authority in July 2000 to take forward customer and service development, and was formally appointed Director in June 2003. Prior to that, Mrs Hall has 15 years' experience with blue chip, multi-national private sector manufacturing and distribution companies, leading in sales and marketing, and business development management.

## ***Operations***

**Steven Horsley** joined the former NHS Supplies Authority as Head of Logistics in July 1999. He was appointed Director of Logistics (now Operations) for the newly formed NHS Logistics Authority on 1 April 2000. He is responsible for the physical distribution operation from the Authority's six sites, together with inventory management and inbound logistics. Mr Horsley is a science graduate, and before joining the NHS, he spent 20 years in retailing and manufacturing logistics and project roles with major blue chip companies, such as Boots the Chemist, Marks and Spencer and Caradon. He is a fellow of the Chartered Institute of Transport, a fellow of the Institute of Logistics and Transport and a Member of the Healthcare Supplies Association.

## ***Human Resources***

**Linda Garnett** was appointed Director of Human Resources in July 2000. Formerly with Southern Derbyshire Acute Hospitals NHS Trust as Deputy Director of HR, she began her career in the health service in 1986 at the Oxford Regional Health Authority, progressing to roles with the Southern Derbyshire Health Authority and Southern Derbyshire Acute Hospitals NHS Trust. She is a Corporate Member of the Chartered Institute of Personnel and Development.

## ***Supply Chain and Corporate Services (non-board post)***

**Michael Wood** was appointed Director of Supply Chain and Corporate Services in April 2003, having previously been the Authority's Head of Corporate Affairs since April 2000. Mr Wood began his career at the British Library, before moving to the Civil Service (Department of Health and Social Security) where he spent 18 years undertaking a variety of roles supporting Government Ministers, and in project and operational management. Prior to April 2000, Mr Wood had been a Divisional Manager for the NHS Prescription Pricing Authority. Mr Wood is a fellow of the Chartered Management Institute.

Full details of directors' remuneration is given in the Remuneration Report on pages 18 to 20.



# Performance review

## Growing the business

Once again, customers have reflected their confidence in us with record demand for the year of £783 million. This represents an impressive seven per cent increase over 2004-05 and is £6 million above target. Sustaining this growth is crucial if we are to continue to be the most cost effective supply channel of consumable products to the NHS. This year, in addition to growing our business with existing customers, we expanded into new customer areas, including a number of NHS private sector healthcare providers and other public sector organisations, such as the Ministry of Defence.

### **Reducing costs for the benefit of the NHS**

This business growth, coupled with internal efficiency improvements, has meant that during 2005-06, NHS Logistics was able to deliver:

- A cash saving for trusts of £2.8 million as a result of our lowest ever service charge of 9.6 per cent.
- An additional 1.4 million trust transactions going through the lowest cost purchase to pay system, providing the opportunity for the NHS to save £3.5 million in back office costs.

Cumulative benefits delivered to the NHS front line now total £116 million per annum. Efficiency savings have been achieved through:

#### **↘ Making better use of our vehicles**

Savings in excess of £300,000 have been achieved by working with customers to change delivery times, resulting in increased vehicle utilisation and reduced transport costs. This is in addition to the £450,000 achieved in 2004-05. During the year, in response to growing sales, we opened a new transshipment centre in Carlisle. This has saved significant mileage, increased delivery reliability and reduced space requirements at Runcorn Distribution Centre. A third transshipment centre, to the north of London, was also opened in April 2006.

#### **↘ Improving supplier performance**

During 2005-06, we carried out significant work to review the efficiency of our supplier and inventory management processes, with supplier performance increasing from 78.5 to 81.9 per cent. 'Ease' of doing business with NHS Logistics reduces supplier costs, which ultimately leads to reduced product prices and more favourable terms. We also continued the development of our web based Supplier Portal. The portal, which now has 773 users from 143 suppliers, has revolutionised the way in which we share transactional information with our key suppliers. For our customers, it has resulted in delivery service improvements and reduced risk of supply chain failure.

#### **↘ Stock turn improvements**

We improved our internal stock turn efficiency to 16.7 turns per annum on product sales of £782 million, saving £20 million on stock investment over the five year period (equivalent to £700k per annum at 3.5 per cent capital charges) and 260 million sq ft of distribution centre space. To put this in context, five years ago, stock turn was 11.5 on sales of £500 million. Assets are being significantly better utilised than they would have been without the 45 per cent improvement in stock turn, leading to significant cost reductions and the provision of a modern supply chain service to the NHS.

### **Serving the NHS**

#### **↘ Improving the quality of our service**

NHS Logistics continues to provide a high quality and consistent level of service which our customers rely on. Overall average service level to customers for 2005-06 was 98.4 per cent, against a target of 98.2 per cent. During the year, we recorded our highest service level on record for a single week at 98.9 per cent, ensuring that trusts receive the products they require at industry-beating levels. Improving service levels allows trusts to save money by reducing unnecessary safety stocks.

## ↘ **Growing customer satisfaction**

During 2005-06, we continued our programme of customer satisfaction research. This is used to drive continuous improvement at a regional and national level. Customer satisfaction levels have been steadily increasing over the last few years, and we are delighted that we have sustained a high level of overall satisfaction at 88 per cent. Building strong customer relationships has always been a core priority for NHS Logistics and during the year we expanded our team of Customer Relationship Managers to nine, leading to more comprehensive and focussed customer relationship management.

## ↘ **Expanding our product range**

We have continued to develop our product range, making NHS Logistics the ultimate one stop shop for the NHS. During 2005-06, we introduced 4,000 new products to our catalogue bringing the total available to over 47,000. This allows trusts to purchase even more of their consumable healthcare products from the lowest cost NHS Logistics' supply channel.

## ↘ **Consumables procurement**

On 1 January 2006, NHS Logistics became responsible for the consumables procurement service that supports its business and established a new Procurement Directorate. This new Directorate is responsible for obtaining the best possible sourcing arrangements, ensuring that products reflect customer needs as well as identifying opportunities for savings on a range of product categories. The transitional arrangements for this Directorate are that managers and staff will continue to be employees of the NHS Purchasing and Supply Agency. The integrated procurement and supply chain business will be more responsive to the needs of NHS customers.

## **Advancing the use of e-business in the NHS**

NHS Logistics offers a recognised world-class suite of e-commerce solutions that have brought substantial savings and efficiencies to the NHS - by streamlining and improving the trust purchase to pay process and helping trusts to understand, review and develop their own performance and supply chain. Our e-commerce solutions benefit the NHS by enabling them to reduce their 'back-office' costs; release clinical resources back to front-line patient care and increase the reliability of management information and control, leading to improved performance on procurement (supply chain management).

## ↘ **Logistics OnLine development**

In June, we completed the roll out of Logistics OnLine (LOL), our web-based e-ordering system, implementing a fully electronic paperless system into all English NHS trusts. During the year, 13 million transactions were processed through LOL and there are now 21,000 live users across virtually all trusts in England.

## ↘ **e-DC (electronic demand capture)**

During 2005-06, we began a ground-breaking process to combine LOL with our materials management hardware - handheld Personal Digital Assistants (PDAs). The combination of these two state-of-the-art ordering systems allows trusts, for the first time, to have a single demand capture system, to maintain a single catalogue of products and place orders using either LOL or the PDAs for any product, whether sourced through NHS Logistics or direct from another supplier. Together with LOL, 85 per cent of all trust demand is now processed through these two systems.

## ↘ **Electronic supplier invoicing**

By March 2006, ahead of expectation, we transferred our top 100 suppliers (by number of invoices raised) onto electronic invoicing, equating to 84 per cent of all invoices received. Our Supplier Portal now includes remittance advice and invoice tracking information for our suppliers.

## **Supporting the development of a world-class supply chain across the NHS**

The NHS landscape is changing rapidly and a world-class supply chain is a critical part of the modernisation process, reducing cost and improving front line service. NHS Logistics continues to support the development of the NHS supply chain by providing supply chain leadership and sharing best practice across the NHS. We do this through:

- supply chain development advice and project management via the core NHS Supply Chain Development Team and the NHS Supply Chain Development Consultancy Framework Agreement
- the NHS Supply Chain Forum – a quarterly meeting of supply chain professionals from within and outside the NHS. This is a critical forum for sharing new developments and best practice among collaborative procurement hubs, confederations and trusts
- the NHS Supply Chain website, [www.supplychain.nhs.uk](http://www.supplychain.nhs.uk) – a website dedicated to supply chain excellence in the NHS. The Knowledge Centre now contains 128 reports and 28 case studies.

The website provides a wide range of best practice materials, detailed reports/case studies from previous work undertaken by the supply chain development team and external supply chain organisations together with a number of supply chain improvement tools.

During the year, we continued to provide practical support for trust and wider Department of Health supply chain improvement projects. These include:

- pharmaceuticals supply chain best practice work at the Heart of England, South Tyneside and Royal Bournemouth and Christchurch Hospitals. These projects have identified potential national savings of £25 million through inventory and waste reduction
- theatres supply chain studies, including Leeds and Kings College Hospitals, have provided trusts with the opportunity to improve their overall efficiency, identify inventory reduction opportunities in excess of £0.5 million and make further improvements through the increased use of the NHS Logistics distribution channel
- work with the emerging collaborative procurement hubs and confederations
- support to the national decontamination programme
- the transfer of the MoD Medical Supplies consumables distribution to NHS Logistics.

In March 2006, we integrated our Business Projects Team, Supply Chain Development Team and Service Development Team into one unit to harness the specialist skills of these three teams for the benefit of the NHS. The merger of the teams will ensure that NHS Logistics continues to provide integrated and cohesive support to our customer base. The team provides a range of enabling technologies and innovative processes for our customers to improve business performance across a wide range of projects across the supply chain. These include:

- e-commerce strategic and interface development support
- e-catalogue solutions
- supply chain consultancy
- strategic and tactical supply chain support for collaborative procurement groups.

The deployment of resources in a cohesive and structured manner is vital for NHS Logistics to deliver maximum value to its customers and other stakeholders.

## External Awards

As in previous years, the world class service provided by NHS Logistics received external validation in 2005-06, and was recognised by the following prestigious national and international awards schemes:

- European Supply Chain Award 2005 (Service Industries, Utilities and Public Sector)
- Government Computing BT Award for Innovation 2005 - "Best Partnership Project" for its e-commerce suite
- Intermec Award for Excellence in the Healthcare Supply Chain
- Finalist in the UNISYS Service Excellence Awards
- Finalist in the Chartered Institute of Purchasing and Supply - Supply Management Awards.

## Environment

NHS Logistics takes seriously its responsibility to reduce its impact on the environment. We will continue to progress this through a range of initiatives. By reducing the amount of energy and fuel that we use and increasing recycling, we can reduce our costs and improve our business efficiency. The NHS directly benefits from any savings that we make. Environmental efficiency makes good business sense.

We have made good progress during 2005-06:

- we reduced the kilowatt hours of energy used per 1,000 lines sold by 6 per cent from a baseline figure of 2002-03
- we purchased on average 80 per cent of the electricity supply for our distribution centres from renewable sources
- when comparing the miles per gallon rates of our vehicle fleet, we improved this by 3 per cent from a baseline of 2002-03
- when comparing the percentage of waste recycled across all distribution centres, we increased the amount recycled by 28 per cent from a baseline figure of 2002-03.

## Health and Safety

75 per cent of our workforce is warehouse based and in recognising that this environment can present its own hazards, we do everything we can to manage the inherent risk through our safety management system. During recent years, we have taken significant strides in the development of safe systems of work, awareness raising and training to build a safer working environment for all our employees.

During 2005-06:

- we reduced the number of days lost due to lost time accidents by 22 per cent (820 compared with 1,051 last year), contributing towards our longer term goal of a 50 per cent reduction in the number of accidents by 2010 and a 30 per cent reduction in lost time (using 2001-02 as a baseline)
- we provided a number of trusts with health and safety advice.

## Developing our organisation - investing in our people

### ↘ *Organisational vision and values*

For a number of years, we have had a clear statement of the organisation's purpose, vision and values which drive our people and organisational development plans. During 2005-06, we continued to build on our progress, using a range of activities – including Phase 3 of a series of workshops – to encourage everyone in the organisation to 'live the values'. The organisation's purpose, vision and values has been built into induction programmes and linked to our Human Resource policy.

### ↘ *Leadership development*

We have continued to develop and implement our leadership development programme, to enable leaders at all levels to boost the performance of their people. This is based on the NHS Leadership Qualities Framework and involves the use of 360° feedback. During 2005-06, the programme was extended to third and fourth tier managers, with consistently good feedback. We have also implemented a Team Leader development programme at three of our sites.

### ↘ *Training*

We have focused strongly on the people management skills of our managers at all levels. We have offered both qualification-based programmes such as Institute of Leadership and Management Level 2 in Team Leading and Level 3 in First Line Management; vocational qualifications such as Level 3 Warehouse and Distribution

and structured learning programmes such as the Manager Development Programme and Team Leader Development Programme.

### ↘ *Staff Opinion Survey*

In January 2006, NHS Logistics conducted its sixth Staff Opinion Survey. This survey is a valuable way to gather information on staff attitudes and to measure our progress as an organisation.

### ↘ *Agenda for Change*

We have managed the Agenda for Change project in full partnership with Unison, and met all national milestones for the NHS national initiative to implement national pay and conditions. We have also implemented the Knowledge and Skills Framework, supported by a new performance and development structure.

### ↘ *Improving Working Lives*

The Authority has been assessed against the Improving Working Lives standards and has been accredited to Practice status.

### ↘ *Staff recognition*

In June 2005, NHS Logistics held its Training and Achievement Awards. A total of 72 awards were presented to individuals and teams for their outstanding contribution to the organisation and the wider community.

### ↘ *Make the difference campaign*

As part of our commitment to customer satisfaction, in April 2005 we launched our internal 'be the difference' campaign to raise awareness amongst all employees that, no matter what role they play at NHS Logistics, they can influence the quality of the service we give to our customers, and ultimately the patients that they support.

### ↘ *Management pay costs*

During the year, management pay costs were restricted to a ceiling increase of 3.225 per cent, in line with guidance received from the Chief Executive of the NHS.

# Benchmarking

The Authority set up and managed the UK Logistics Benchmarking Club (LogMark), this continues to flourish and includes over 20 leading organisations. LogMark gives NHS Logistics the opportunity to measure our operations and performance against other blue chip private sector organisations. Regular meetings during 2005 included guest speakers and site visits.

NHS Logistics aspires to be a 'best in class' organisation and uses a range of other independent benchmarking services to provide a comparator of performance in the areas of Customer Service, Finance, Information Technology, Human Resources and Health, Safety and Environment. In many measures the Authority is in the top quartile across all industry sectors, with the aim of showing year on year improvement.

# Emergency planning support for the Department of Health

2005-06 was the fourth full year that the Authority was involved with assisting the Department of Health with their emergency planning arrangements.

NHS Logistics has a dedicated officer overseeing this activity, and commits other resources such as warehouse space and operational staff, to see that the requirements of the Department of Health are met in this area. Any such activity, which is not part of NHS Logistics' work associated with product supply to trusts, is fully funded by the Department of Health.

Activities carried out by the Authority this year include:

- the packing and storage of specialised medical products
- the national distribution of specialised medical equipment
- renewal of existing products
- specialist advice
- leading the contracting out of specific regional storage and distribution arrangements.

NHS Logistics' role in this area will continue into 2006-07.

# Better Payments Practice Code

The Authority is required to pay its non-NHS trade creditors in accordance with the CBI's Better Payments Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later), unless other payment terms have been agreed with the supplier. Details of compliance with the Code are given in the Notes to the Accounts (see note 2.3).

# Annual Accounts 2005-06

## Management Commentary

The accounts of NHS Logistics Authority for the year ended 31 March 2006 have been prepared to comply with a Direction given by the Secretary of State in accordance with section 98(2) of the NHS Act 1997. These accounts report on the final year of the Authority's operation prior to its dissolution on 31 March 2006.

In October 2003 the Secretary of State announced the intention to review the Department of Health's Arms Length Bodies, of which the NHS Logistics Authority was one. Subsequently, a report "*Reconfiguring the Department of Health's Arms Length Bodies*" was published which detailed the bodies that would merge, be abolished, or see their functions transferred. This was followed in November 2004 by the publication of "*An Implementation Framework for reconfiguring the Department of Health's Arms Length Bodies*", setting out the principles, processes and timescales by which the change programme would be implemented. As a result the NHS Logistics Authority was dissolved on 31 March 2006 and with effect from 1 April 2006, its functions were transferred to the NHS Business Services Authority, a Special Health Authority created on 1 October 2005.

All assets, liabilities and staff of the NHS Logistics Authority transferred to the NHS Business Services Authority on 1 April 2006, and as the transfer of activities was between NHS bodies, they are not considered as 'discontinued'. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of the NHS Logistics Authority final financial statements.

NHS Logistics Authority was established as a Special Health Authority on 1 April 2000 to provide the main supply channel for consumable healthcare products to the English NHS. The Authority has also developed its world class e-commerce systems which are now embedded in the majority of hospitals and has also developed a supply chain management capability delivering year on year benefit to the NHS.

Further to the Authority's dissolution, NHS Logistics is progressing through a market testing initiative, led by the Commercial Directorate of the Department of Health. This process is well advanced and in March 2006, Ministers accepted that there was a compelling case for outsourcing to the preferred bidder. The Department of Health expect a final contract to be awarded with the contracting out of business activities during the summer of 2006. The contract will be managed by a newly formed Supply Chain Management Division of the NHS Business Services Authority.

### **Operations**

The Authority operates six distribution centres across England, with the facility at Alfreton in Derbyshire also acting as headquarters. National deliveries are made by a private sector partner (contracted out) who operates a vehicle fleet in excess of 260 vehicles making deliveries to approximately 14,000 physical locations at trusts and PCTs.

The Authority's operations are not centrally funded. Prices charged by the Authority comprise of the nationally contracted purchase price of goods, plus an amount to recover the operating costs of the Authority. Expenditure is therefore on a non-cash limited basis.

## Members of the Board

During 2005-06, members of the board of NHS Logistics Authority were:

**Philip Champ**, *Chairman*

**Barry Mellor**, *Chief Executive*

**Sheila Reiter**, *Non Executive Director*

**Glenn Harris**, *Director of Finance and Information (part year)*

**Stella Earnshaw**, *Non Executive Director*

**Colin Farmer**, *Director of Finance (part year)*

**Pat Zadora**, *Non Executive Director*

**Steven Horsley**, *Director of Operations*

**David Hatherall**, *Non Executive Director*

**Linda Garnett**, *Director of Human Resources*

**James Spittle**, *Non Executive Director*

**Melanie Hall**, *Director of Customer and Service Development*

With the cessation of the NHS Logistics Authority on 31 March 2006, it is now the responsibility of the NHS Business Services Authority Chief Executive, as Accounting Officer, to sign these accounts.

## Equal opportunities

The Authority policy is to ensure that both current employees and applicants for employment are not discriminated against on any grounds.

The NHS Logistics Authority is accredited as a user of the Employment Service Disability symbol. This is a means of communicating that the Authority adopts a positive approach to employing people with disabilities.

## Auditor

The accounts have been audited by the Comptroller and Auditor General in accordance with the National Health Service Act 1977 as amended by the Government Resources and Accounts Act 2000 (audit of Health Services bodies) Order 2003, Number 1324. The audit certificate is on pages 24 to 25.

## Financial and performance review

During the year ended 31 March 2006, the Authority achieved all of its financial targets. The key points in the year to note are:

- Turnover increased to £783.1 million, an increase of £52.7 million (7 per cent) over 2004-05.
- Achieved statutory duty to breakeven, recording a modest surplus of £1.4 million, representing less than 0.2 per cent of turnover.
- Lowest ever Logistics service on-cost at 9.6 per cent.
- Performance against the CBI's Better Payment Code achieved 78 per cent of supplier invoices paid within 30 days.

## Income

Total income of £783.1 million exceeds 2004-05 income levels by £52.7 million (7 per cent). £763.7 million (representing 97.5 per cent) of total income is for sale of products to the NHS. Growth was particularly significant in the medical and surgical consumables, showing an increase of £36.0 million over 2004-05. Increased demand in other commodity areas was some way masked by the significantly reduced sell prices reflected in the April 2005 catalogue.

During the year, catalogue on-cost averaged 9.6 per cent, the lowest service on-cost so far and continuing the trend of year on year reduction on 2004-05 levels.

## Expenditure

The increased turnover was the result of increased activity, with the total number of requisition lines supplied by the distribution network increased to 31.8 million lines, over 1.4 million more than 2004-05, a 5 per cent increase. In addition to this the volume of goods picked for each requisition line increased by a further 2 per cent.

Staff costs and administrative expenditure of £76.6 million, increased by £6.4 million (9 per cent) from 2004-05. This year's costs have suffered a number of non-recurring impacts, which are detailed below. Without these uncontrollable impacts, 2005-06 costs would show an increase on 2004-05 of £2.5 million (3 per cent).

Salaries and wages increased by £1.9 million the result of additional operatives to process the increased demand and volume, along with the full year effect of Agenda for Change (half year effect in 2004-05). Transport costs (including fuel) increased by £1.1 million and significantly increased utility prices added a further £0.5 million to this year's cost base. HM Treasury reduced the discounting rate applied to our pension provision, this along with an increase in the level of our net assets resulted in an increased financing charge of £0.7 million above 2004-05 levels.

The 2004-05 cost base benefited from a £2.4 million provision release arising from the reassignment of an onerous property lease. This, along with the other uncontrollable in-year impacts of fuel, utility and financing charge increases, contributed to £3.9 million (6 per cent) of the staff costs and administrative expenditure increase. This resulted in a real increase in operating costs of £2.5 million (3 per cent), handling a 5 per cent increase in line activity and a further 2 per cent increase in volume within each picked line. Despite these in-year cost pressures, NHS Logistics has delivered the lowest ever service on-cost of 9.6 per cent, with our NHS customers benefiting from deflationary catalogue prices.

Capital charges representing 3.5 per cent interest on net assets and depreciation are included within the income and expenditure account and payable to the Department of Health.

Pay awards to staff and senior managers did not exceed 3.225 per cent – further details on senior management remuneration can be seen in the remuneration report accompanying these accounts.

## Balance sheet

As at 31 March 2006, the Authority had net current assets of £67.0 million, an increase of £1.7 million over the previous year.

Fixed assets total £33.6 million, an increase of £0.6 million over 2004-05 mainly due to additions and indexation.

Stock levels have reduced by £5.7 million on 2004-05 levels in spite of the increased turnover and product range. Total debtors of £63.3 million, an increase of £2.3 million on 2004-05, with the NHS debtors of £55.8 million representing less than four weeks sales and with less than £0.2 million of this debt over 90 days old. Trade creditors of £38.1 million have reduced by £5.1 million on 2004-05 due to the increased cash receipts from trusts at year end.

Provisions include previous pension commitments to former staff retired prior to March 1995 (payable via NHS Pension Agency) and current known legal obligations. The provision balance has increased slightly to £5.3 million as a result of the £0.5 million financing charge arising from the change to the discounting rate from 3.5 per cent to 2.2 per cent on 1 April 2005.

The well publicised financial problems reported by some NHS trusts have adversely affected the Authority's cashflow. Although debtors improved significantly at year end, obtaining timely payment throughout the year has been more difficult and the Authority continues to rely on the prompt payment by the NHS to enable it to discharge its creditors. With 950,000 supplier invoices paid during 2005-06, a 66 per cent increase on 2004-05, of which 78 per cent were paid within 30 days, 12 per cent less than 2004-05 due to the reduced cash payments from NHS trusts.



## Performance indicators

The Authority enjoyed a successful year in the discharge of its' key service obligation. The KPIs shown below are the main ones reported regularly to the Board of NHS Logistics and are a focus for continued improvement.

		<b>2005-06</b>	2004-05
Number requisition lines delivered	thousand	<b>31,804</b>	30,370
<i>Measure of order line activity supplied to customers</i>			
Delivered service level	per cent	<b>98.38</b>	98.05
<i>Measure of order fill service level (lines supplied as a percentage of lines requested)</i>			
Annual stock turn	number	<b>16.7</b>	13.8
<i>Measure of inventory efficiency by turning stock (annual cost of sales ÷ stock value)</i>			
Logistics cost per £100 sales	number	<b>£7.19</b>	£7.15
<i>Measure of operational cost performance expressed as the cost of supplying £100 of sales demand (operations cost ÷ sales x100)</i>			
Logistics cost per requisition line	number	<b>£1.77</b>	£1.72
<i>Measure of operational cost performance expressed as the cost of supplying each order line (operations costs ÷ lines supplied)</i>			
Debtor days (average)	number	<b>34.7</b>	35.0
<i>Average number of days credit given to our customers</i>			
Creditor days (average)	number	<b>26.8</b>	24.7
<i>Average number of days credit taken from our suppliers</i>			
Productivity	number	<b>14.77</b>	14.81
<i>Measure of operational efficiency expressed as customer order lines handled per man-hour worked</i>			
Transport cost per delivered line	number	<b>£0.54</b>	£0.53
<i>Measure of transport cost performance per customer order line (transport costs ÷ lines supplied)</i>			
Customer satisfaction	per cent	<b>88</b>	88
<i>Measure of customer satisfaction from the annual survey</i>			
Delivery on time	per cent	<b>99.41</b>	99.42
<i>Percentage of customer deliveries made on time</i>			
Health and Safety			
– accidents	number	<b>47</b>	39
– lost time	days	<b>820</b>	1,051
<i>Number of accidents resulting in absence from work and the amount of lost time</i>			

## Summary of results

	<b>2005-06</b>	2004-05	2003-04	2002-03	2001-02
£m Revenue	<b>783.1</b>	730.3	676.9	622.4	568.3
Operating Surplus/(deficit)/£000k	<b>1,429</b>	722	853	(80)	249



**Nick Scholte**  
Chief Executive  
NHS Business Services Authority

20 June 2006

# Remuneration Report

This report for year ended 31 March 2006 is produced by the Board on the recommendation of the Remuneration Committee and deals with the remuneration of the Chair, Chief Executive, Board Members and Executive Directors who have influence over the decisions of the Authority as a whole.

## Remuneration Policy

The Director's terms and conditions were approved by the Remuneration and Terms of Service Committee in 2001. Salary levels are maintained within the ranges for NHS senior managers and all posts are evaluated by Hay with salaries set in accordance with market rates for posts of the same size. All Director's job descriptions are reviewed annually and salary levels assessed against market information.

## Performance Review

Executive Directors are set objectives for each year, based on the achievement of the organisation's business plan. Performance against these objectives is reviewed regularly by the Chief Executive and annually by the Chairman and Non Executive Directors.

## Policy on contracts

Non Executive Directors are appointed by the Secretary of State in accordance with the terms and conditions of the Appointments Commission. Executive Director appointments are made on permanent contracts, with a standard notice period of six months. (The policy prior to 2001 was for notice periods to be 12 months, this applies to two individuals appointed prior to 2001). Contracts of employment allow for termination by way of payment in lieu of notice but there are no other provisions for termination payments.

## Contract details

Name	Date appointed as Director	Notice period
Barry Mellor	1 July 2001	6 months
Steven Horsley	26 July 1999	12 months
Melanie Hall	1 June 2003	6 months
Linda Garnett	24 July 2000	12 months
Colin Farmer	7 February 2006	6 months
Michael Wood	1 April 2003	6 months

## Salary and pension entitlement of senior managers

### A. Remuneration

Name and title	Salary (bands of £5k)	2005-06 Other remuner. (bands of £5k)	Benefits in kind (rounded to the nearest £00)	Salary (bands of £5k)	2004-05 Other remuner. (bands of £5k)	Benefits in kind (rounded to the nearest £00)
	£000	£000	£000	£000	£000	£000
P. Zadora, (NED)	5-10	0	N/A	5-10	0	N/A
S. Earnshaw, (NED)	5-10	0	N/A	5-10	0	N/A
S. Reiter, (NED)	5-10	0	N/A	5-10	0	N/A
J. Spittle, (NED)	5-10	0	N/A	5-10	0	N/A
D. Hatherall, (NED)	5-10	0	N/A	5-10	0	N/A
P. Champ, (Chairman)	20-25	0	N/A	20-25	0	N/A
L. Garnett, (Director of HR)	75-80	0	5.0	70-75	0	4.6
B. Mellor, (Chief Executive)	110-115	0	5.9	100-105	0	5.5
S. Horsley, (Director of Operations)	90-95	0	6.3	85-90	0	6.5
G. Harris, (Director of Finance and Information Services) (to 27/5/05)	15-20	0	1.0	85-90	0	4.4
C. Farmer, (Director of Finance) (from 23/5/05)	60-65	N/A	1.9	N/A	0	N/A
M. Hall, (Director of Customer and Service Development)	80-85	0	5.6	70-75	0	5.3
M. Wood, (Director of Supply Chain & Corporate Services)	75-80	0	3.6	70-75	0	3.3

### B. Pension benefits

Name and title	Real increase in pension at age 60 (bands of £2,500)	Lump sum at age 60 related to real increase in pension (bands of £2,500)	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000)	Lump sum at age 60 related to accrued pension at 31 March 2006 (bands of £5,000)	Cash Equivalent transfer value at 31 March 2006	Cash Equivalent transfer value at 31 March 2005	Real increase in cash equivalent transfer value
	£000	£000	£000	£000	£000	£000	£000
L. Garnett, (Director of HR)	0-2.5	2.5-5.0	15-20	55-60	227	201	14
B. Mellor, (Chief Executive)	0-2.5	2.5-5.0	5-10	15-20	110	82	18
S. Horsley, (Director of Operations)	0-2.5	2.5-5.0	5-10	20-25	120	96	15
C. Farmer, (Director of Finance) (from 23/5/05)	0-2.5	2.5-5.0	5-10	20-25	89	(see note below)	
M. Hall, (Director of Customer and Service Development)	0-2.5	5.0-7.5	5-10	25-30	114	87	18
M. Wood, (Director of Supply Chain and Corporate Services)	0-2.5	5.0-7.5	25-30	75-80	390	321	43

As Non Executive Members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non Executive Members.

NED = Non Executive Director.

Benefits in kind are monetary benefits for the provision of lease cars.

There were no 'golden hello' or compensation payments for loss of office.

There were no employer's contributions to stakeholder pensions.

## 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 figures 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.

## Directors standing down and appointed during the year

Glenn Harris stood down as a Director on 27 May 2005. There were no notable increases in pension benefits, other than those arising from regular contributions, requiring disclosure. Colin Farmer was appointed with effect from 23 May 2005, therefore balances as at 31 March 2005 are not applicable. Where possible, estimated reliable increases have been disclosed for the period in office, on a pro rata basis.



**Nick Scholte**  
*Chief Executive*  
NHS Business Services Authority

20 June 2006

# Statement of the Board's and Chief Executive's Responsibilities

Under the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, the NHS Logistics Authority 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 NHS Logistics Authority's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

The NHS Logistics Authority was dissolved on 31 March 2006, and overall responsibility for the operation of NHS Logistics as it continues in the future lies with the newly established NHS Business Services Authority. The Accounting Officer for the Department of Health has appointed the Chief Executive of the NHS Business Services Authority as the Accounting Officer, with responsibility for preparing the NHS Logistics Authority's accounts in its final year, 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 have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis – notwithstanding the dissolution of the NHS Logistics Authority, NHS Logistics will continue in operation under revised management arrangements.

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 NHS Logistics Authority, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Department of Health.

# Statement on Internal Control 2005-06

## Scope of responsibility

The NHS Logistics Authority ceased to exist on 31 March 2006. The Statement on Internal Control for the Authority 2005-06 has been completed by the NHS Business Services Authority in its capacity as the body incorporating the functions previously carried out by the NHS Logistics Authority.

Owing to the closure of the NHS Logistics Authority, I have signed this Statement on Internal Control being the Chief Executive and Accounting Officer of the NHS Business Services Authority.

As Accounting Officer, together with the former Chief Executive of the NHS Logistics Authority, who was in post for 2005-06, I have responsibility for a sound system of internal control having been maintained that supported the achievement of the former Authority's policies, aims and objectives. I also have responsibility for safeguarding public funds and the former Authority's assets for which I am personally responsible, as set out in the Accounting Officers' Memorandum issued by the Department of Health. I am accountable to Parliament and the Secretary of State for Health through the Department of Health Commercial Directorate.

The system of internal control was in place in the NHS Logistics Authority throughout the year ended 31 March 2006. There is no indication that this position has changed in the period between year end and the production and audit of financial statements.

## The purpose of the system of internal control

The system of internal control is designed to manage the risk of failure to achieve policies, aims and objectives to a reasonable level. The system of internal control:

- identifies and prioritises the risks to the achievement of the organisation's policies, aims and objectives
- evaluates the likelihood of those risks being realised and their potential impact, and to manage them efficiently, effectively and economically.

## Capacity to handle risk

### Leadership

The Authority demonstrates leadership and a positive approach to risk management through:

- its approved risk management strategy
- periodic Board level consideration of key strategic risks
- the summarised reporting of operational risk management activity and outcomes.

### Resources

The Authority demonstrates commitment to risk management through:

- investment in audit and assurance functions
- comprehensive induction for all staff covering health and safety and other policies and procedures designed to mitigate risk
- frameworks through which incidents and near misses are reported and any lessons learned.

These resources continue to be deployed following the dissolution of the Authority.

## The risk and control framework

The Board identified its objectives systematically (for example through its corporate strategy and business plan) and manages the principal risks to achieving them. The assurance framework fulfilled this purpose.

## Review of effectiveness

Within the NHS Logistics Authority, the Chief Executive had the responsibility for reviewing the effectiveness of the system of internal control on an ongoing basis during the course of the year. This was informed in a number of ways:

- The Audit Committee, through its Annual Report to the Board, 2005-06, has concluded positively on the results of its reviews of the effectiveness of the system of internal control
- The Head of Internal Audit has provided a professional and independent opinion that the organisation has an effectively designed system of internal control that is operating as intended
- KPMG's confirmation of the Authority's continued compliance with the three core standards – governance, financial management and risk management
- Executives and managers within the organisation who had responsibility for the development and maintenance of the system of internal control provided assurances through arrangements for accountability and performance review
- The Assurance Framework provided evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives had been reviewed
- The findings of the external auditors in their work to support the certification of the annual financial statements
- The Authority's operations maintained accreditation to ISO standards, which were subject to external validation
- The Authority's comprehensive suite of automatically generated KPIs provided continuous assurance that business objectives were being delivered.

All of the above assurances have remained in place during the period since the NHS Logistics Authority's closure.

## Conclusion

During 2005-06, the Authority has met all significant business objectives whilst the control environment has remained strong.

As a result of the comprehensive review of the system of internal control that the former Chief Executive and former officers of the NHS Logistics Authority conducted, and on the basis of documentation provided by the NHS Logistics Authority to the NHS Business Services Authority, I feel that no significant controls issues have been identified.



**Nick Scholte**  
*Chief Executive*  
NHS Business Services Authority

20 June 2006

## **The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament**

I certify that I have audited the financial statements of NHS Logistics for the period ending 31 March 2006 under the NHS Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Chief Executive is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury 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 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 part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Authority 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 page 22 reflects the Authority's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Chief Executive's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Authority'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. This other information comprises the Annual Report, the unaudited part of the Remuneration Report and the Management Commentary. 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. An 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 Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.



I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements 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.

## Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 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 2006, and of its surplus, total recognised gains and losses and cashflows for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury; and
- 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.

I have no observations to make on these financial statements.



**John Bourn**  
*Comptroller and Auditor General*

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

30 June 2006

## Supplementary Statement by the Comptroller and Auditor General

The maintenance and integrity of the NHS Logistics website is the responsibility of the Accounting Officer; my work does not involve consideration of these matters and accordingly I accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Income and Expenditure Account for the year ended 31 March 2006

	<i>Notes</i>	<b>2005-06</b> <b>£000</b>	<i>2004-05</i> <i>£000</i>
Operating Income	4	<b>783,050</b>	730,309
Expenditure:			
Cost of Sales	2.1	<b>(704,716)</b>	(658,951)
Staff Costs and administration expenses	2.1	<b>(76,614)</b>	(70,245)
<b>Operating Surplus</b>		<b>1,720</b>	1,113
<b>Cost of fundamental reorganisation or restructuring on continuing operations</b>	2.1	<b>(291)</b>	(391)
<b>Surplus for the financial year</b>	12.1	<b>1,429</b>	722

## Statement of recognised gains and losses for the year ended 31 March 2006

	<i>Notes</i>	<b>2005-06</b> <b>£000</b>	<i>2004-05</i> <i>£000</i>
Surplus/deficit for the financial year	12.1	<b>1,429</b>	722
Unrealised surplus/(deficit) on the indexation of fixed assets	12.3	<b>889</b>	2,584
Receipt of donated assets		<b>0</b>	0
Fixed asset impairment losses		<b>0</b>	(2,987)
<b>Recognised gains and losses for the financial year</b>		<b>2,318</b>	319

*The notes at pages 29 to 45 form part of this account.*

# Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
<b>Fixed assets:</b>			
Intangible assets	5.1	71	90
Tangible assets	5.2	<u>33,501</u>	<u>32,882</u>
		<b>33,572</b>	32,972
<b>Current assets:</b>			
Stocks	6	41,722	47,418
Debtors	7	63,338	61,023
Cash at bank and in hand	8	<u>63</u>	<u>41</u>
		<b>105,123</b>	108,482
Creditors: amounts falling due within one year	9.1	<u>(38,147)</u>	<u>(43,225)</u>
<b>Net current assets/(liabilities)</b>		<b>66,976</b>	65,257
<b>Total assets less current liabilities</b>		<b>100,548</b>	98,229
Provisions for liabilities and charges	10	<u>(5,280)</u>	<u>(4,990)</u>
		<b>95,268</b>	<b>93,239</b>
<b>Taxpayers' equity</b>			
Income and expenditure reserve	12.1	61,696	60,267
Capital reserve	12.2	25,996	26,177
Revaluation reserve	12.3	<u>7,576</u>	<u>6,795</u>
		<b>95,268</b>	<b>93,239</b>

The notes at pages 29 to 45 form part of this account.



Nick Scholte  
Accounting Officer

20 June 2006

# Cash Flow Statement

## for the year ended 31 March 2006

	<i>Notes</i>	<b>2005-06</b> <b>£000</b>	<i>2004-05</i> <i>£000</i>
<b>Net cash (outflow) from operating activities</b>	13	<b>(15)</b>	(606)
<b>Servicing of finance</b>			
Interest paid		<b>0</b>	0
Interest elements of finance leases		<b>0</b>	0
<b>Net cash (outflow) from servicing finance</b>		<b>0</b>	0
<b>Capital expenditure and financial investment:</b>			
(Payments) to acquire intangible fixed assets		<b>(5)</b>	(53)
(Payments) to acquire tangible fixed assets		<b>(945)</b>	(2,170)
Receipts from disposal of intangible fixed assets		<b>0</b>	0
Receipts from disposal of tangible fixed assets		<b>187</b>	3,096
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(763)</b>	873
<b>Net cash inflow/(outflow) before financing</b>		<b>(778)</b>	267
<b>Financing</b>			
Net parliamentary funding	3/13	<b>800</b>	2,735
Capital element of finance leases		<b>0</b>	0
Surrender of capital receipts		<b>0</b>	(3,096)
<b>Increase/(decrease) in cash in the period</b>	8	<b>22</b>	(94)

*The notes at pages 29 to 45 form part of this account.*

# 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 Going concern

As discussed in the management commentary, NHS Logistics Authority was dissolved on 31 March 2006 with its assets, liabilities and staff transferring to the NHS Business Services Authority on 1 April 2006. As this transfer of activities is within NHS bodies, they are not 'discontinued' and it has been considered appropriate to adopt the going concern basis for the preparation of the Authority's final financial statements.

### 1.3 Income

Operating income is income which relates directly to the operating activities of the Authority. The main source of funding for the Authority is income from sales to the NHS (£782.1 million of the £783.1 million operating income comprises of sales to customers). The additional income comprises fees such as those received from the Department of Health for services provided.

### 1.4 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.

### 1.5 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 2005-06 was 3.5 per cent (2004-05 3.5 per cent) 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.

### 1.6 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, irrespective of their individual or collective cost.

## b. Valuation

### Intangible fixed assets

Intangible fixed assets held for operational use are valued at historical cost. 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 the Inland Revenue 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 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 (in the range of 35 to 46 years). Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life:

	<i>Years</i>
Plant and Machinery	5-15
Information Technology	5-8

## 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.

## 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 18 is compiled directly from the losses and compensations register which is prepared on a cash basis.

## 1.9 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions 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 total employer contribution payable in 2005-06 was £3,002,178 (£2,879,362 for 2004-05).

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 employers 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 Pensions Agency 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 per cent 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 per cent 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 three years pensionable pay for each year of service. A lump sum normally equivalent to three 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 per cent 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.

## 1.10 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.

## 1.11 Leases

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

## 1.12 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 per cent in real terms. This is a change from the rate of 3.5 per cent applied from 2003-04. The effect of the change is to increase the carrying value of the provisions, this is shown in note 10.



## 2.1 Cost of sales and administration

	Notes	2005-06 £000	2004-05 £000
Cost of Sales		<b>704,716</b>	658,951
Non-executive members' remuneration		<b>50</b>	52
Other salaries and wages	2.2	<b>34,165</b>	32,291
Maintenance		<b>1,006</b>	1,084
Transport main contract		<b>17,042</b>	15,965
Transport other		<b>285</b>	265
Bridgwater distribution centre contract		<b>5,755</b>	5,452
Capital: Depreciation and amortisation	5.1, 5.2	<b>1,084</b>	1,111
Impairments	5.1, 5.2	<b>0</b>	421
Capital charges interest		<b>3,424</b>	3,544
(Profit)/loss on disposal	5.4	<b>6</b>	(746)
		<b>4,514</b>	4,330
Other finance costs – unwinding of discount	10	<b>105</b>	153
– change in discount rate	10	<b>523</b>	0
Auditor's remuneration: Audit Fees		<b>75</b>	75
Auditor's remuneration: Other Fees*		<b>0</b>	0
Miscellaneous		<b>13,094</b>	10,578
		<b>781,330</b>	729,196

\*The Authority did not make any payments to auditors for non-audit work.

The cost of fundamental reorganisation or restructuring on continuous operations, totalling £291,019 (2004-05: £391,192) include the redundancy and capitalised pension costs of in-year restructuring along with the inflationary increase to the pension provision for pre 1995 restructuring.

## 2.2 Staff numbers and related costs

	2005-06 Total £000	Permanently Employed Staff £000	Other £000	2004-05 £000
Salaries and wages	<b>29,060</b>	<b>28,146</b>	<b>914</b>	27,489
Social security costs	<b>2,103</b>	<b>2,096</b>	<b>7</b>	1,923
Employer contributions to NHSPA	<b>3,002</b>	<b>2,998</b>	<b>4</b>	2,879
	<b>34,165</b>	<b>33,240</b>	<b>925</b>	32,291

## 2.2 Staff numbers and related costs (continued)

The average number of employees during the year was:

	<b>Total Number</b>	<b>Permanently Employed Staff Number</b>	<i>2004/05 Number</i>
Total	<u><b>1,474</b></u>	<u><b>1,474</b></u>	<u>1,385</u>

### Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £127,820 (2004-05: £121,472).

### Retirements due to ill-health

During 2005-06 there were two 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 £228,160.

## 2.3 Better Payment Practice Code – measure of compliance

	<b>2005-06 Non NHS</b>	<b>NHS</b>	<i>2004-05</i>
Total number of bills paid	<b>947,881</b>	<b>23</b>	570,164
Total number of bills paid within target	<u><b>742,799</b></u>	<u><b>17</b></u>	<u>510,878</u>
Percentage of bills paid within target	<u><b>78.4%</b></u>	<u><b>73.9%</b></u>	<u>89.6%</u>
	<b>£000</b>	<b>£000</b>	<i>£000</i>
Total value of bills paid	<b>760,570</b>	<b>258</b>	702,181
Total value of bills paid within target	<u><b>466,930</b></u>	<u><b>252</b></u>	<u>573,804</u>
Percentage value of bills paid within target	<u><b>61.4%</b></u>	<u><b>97.7%</b></u>	<u>81.7%</u>

No interest or compensation payments were paid under the Late Payment of Commercial Debt (Interest Act 1998).

### 3 Reconciliation of gross capital expenditure to capital funding

	<b>2005-06</b> <b>£000</b>	2004-05 £000
Gross capital expenditure	<b>988</b>	2,176
NBV of assets disposed	<b>(193)</b>	(2,350)
Loss/(gain) on disposal	<b>6</b>	(746)
<b>Net capital funding outturn</b>	<b>801</b>	(920)
Capital funding	<b>833</b>	2,209
Transfer of revenue from capital	<b>0</b>	0
Surrender of receipts	<b>0</b>	(3,096)
<b>Remaining capital funding</b>	<b>32</b>	<b>33</b>

### 4 Operating income

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

	<b>2005-06</b> <b>£000</b>	2004-05 £000
Sales to NHS Customers	<b>763,689</b>	712,726
Fees	<b>957</b>	996
Sales to Non-NHS Customers	<b>18,404</b>	16,587
<b>Total</b>	<b>783,050</b>	<b>730,309</b>

## 5.1 Intangible fixed assets

The only intangible fixed assets held by the Authority are software licences.

	<i>Software Licences</i> <b>£000</b>
Gross cost at 1 April 2005	99
Additions – purchased	<b>5</b>
Disposals	<b>0</b>
<b>Gross cost at 31 March 2006</b>	<b>104</b>
Accumulated amortisation at 1 April 2005	(9)
Provided during the year	<b>(24)</b>
Reclassification	<b>0</b>
<b>Accumulated amortisation at 31 March 2006</b>	<b>(33)</b>
Net book value:	
Purchased at 31 March 2005	90
<b>Net book value:</b>	
<b>Purchased at 31 March 2006</b>	<b>71</b>
<b>Total at 31 March 2006</b>	<b>71</b>

## 5.2 Tangible fixed assets

	<i>Land</i>	<i>Buildings excluding dwellings</i>	<i>Assets under constr. + poa</i>	<i>Plant Machinery</i>	<i>Information and Technology</i>	<i>Total</i>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cost or Valuation at 1 April 2005	9,635	20,641	116	1,563	1,949	<b>33,904</b>
Additions – purchased	0	164	233	320	266	<b>983</b>
Additions – donated	0	0	0	0	0	<b>0</b>
Impairments	0	0	0	0	0	<b>0</b>
Reclassification	0	0	(116)	116	0	<b>0</b>
Indexation	485	379	0	35	0	<b>899</b>
Other in-year revaluation	0	0	0	0	0	<b>0</b>
Disposals	0	0	0	(89)	(250)	<b>(339)</b>
<b>Gross cost at 31 March 2006</b>	<b>10,120</b>	<b>21,184</b>	<b>233</b>	<b>1,945</b>	<b>1,965</b>	<b>35,447</b>
Accumulated depreciation at 1 April 2005	0	0	0	(479)	(543)	<b>(1,022)</b>
Provided during the year	0	(520)	0	(220)	(320)	<b>(1,060)</b>
Impairments	0	0	0	0	0	<b>0</b>
Reclassification	0	0	0	0	0	<b>0</b>
Indexation	0	0	0	(10)	0	<b>(10)</b>
Other in-year revaluation	0	0	0	0	0	<b>0</b>
Disposals	0	0	0	88	58	<b>146</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>0</b>	<b>(520)</b>	<b>0</b>	<b>(621)</b>	<b>(805)</b>	<b>(1,946)</b>
Net book value:						
Purchased at 31 March 2005	9,635	20,641	116	1,084	1,406	32,882
Total at 31 March 2005	9,635	20,641	116	1,084	1,406	32,882
<b>Net book value:</b>						
<b>Purchased at 31 March 2006</b>	<b>10,120</b>	<b>20,664</b>	<b>233</b>	<b>1,324</b>	<b>1,160</b>	<b>33,501</b>
<b>Total at 31 March 2006</b>	<b>10,120</b>	<b>20,664</b>	<b>233</b>	<b>1,324</b>	<b>1,160</b>	<b>33,501</b>

### 5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2006 comprises:

	<b>31 March 2006 £000</b>	<i>31 March 2005 £000</i>
Freehold	<b>30,784</b>	30,276
Long leasehold	<b>0</b>	0
	<b><u>30,784</u></b>	<u>30,276</u>

### 5.4 Profit/loss on disposal of fixed assets

	<b>31 March 2006 £000</b>	<i>31 March 2005 £000</i>
Profit on disposal of land and buildings	<b>0</b>	748
(Loss) on disposal of land and buildings	<b>0</b>	0
(Loss) on disposal of plant and equipment	<b>(1)</b>	(2)
(Loss) on disposal of information technology	<b>(5)</b>	0
	<b><u>(6)</u></b>	<u>746</u>

## 6 Stocks and work in progress

	<b>31 March 2006 £000</b>	<i>31 March 2005 £000</i>
Fuel stocks	<b>99</b>	99
Finished processed goods	<b>41,623</b>	47,319
	<b><u>41,722</u></b>	<u>47,418</u>

## 7 Debtors

### 7.1 Amounts falling due within one year

	<b>31 March 2006 £000</b>	<i>31 March 2005 £000</i>
NHS debtors	<b>55,754</b>	54,212
Non-NHS debtors	<b>4,299</b>	3,180
Provision for irrecoverable debts	<b>(14)</b>	(9)
Prepayments	<b>2,023</b>	2,195
Accrued income	<b>14</b>	23
Capital debtors	<b>0</b>	0
Other debtors	<b>1,262</b>	1,422
	<b><u>63,338</u></b>	<u>61,023</u>

## 8 Analysis of changes in cash

	<i>At 31 March 2005 £000</i>	<b>Change during the year £000</b>	<b>At 31 March 2006 £000</b>
Cash at OPG	41	<b>22</b>	<b>63</b>
Cash at commercial banks and in hand	0	<b>0</b>	<b>0</b>
	<u>41</u>	<b><u>22</u></b>	<b><u>63</u></b>

## 9 Creditors

### 9.1 Amounts falling due within one year

	<b>31 March 2006 £000</b>	<i>31 March 2005 £000</i>
NHS creditors	<b>97</b>	22
Non-NHS creditors	<b>16,447</b>	22,908
Capital creditors	<b>158</b>	121
Tax and social security	<b>21</b>	35
Other creditors	<b>70</b>	60
Accruals – non-stock	<b>1,427</b>	1,278
Accruals – stock	<b>19,916</b>	18,488
Deferred income	<b>11</b>	313
	<b><u>38,147</u></b>	<u>43,225</u>

## 10 Provisions for liabilities and charges

	<i>Pensions for former staff £000</i>	<i>Legal claims £000</i>	<i>Other £000</i>	<i>Total £000</i>
At 31 March 2005	4,660	218	112	4,990
Arising during the year	151	99	155	405
Utilised during the year	(393)	(47)	(208)	(648)
Reversed unused	(15)	(25)	(55)	(95)
Change in the discount rate	523	0	0	523
Unwinding of discount	105	0	0	105
<b>At 31 March 2006</b>	<b>5,031</b>	<b>245</b>	<b>4</b>	<b>5,280</b>

### Expected timing of cash flows:

Within 1 year	390	245	4	639
1-5 years	1,561	0	0	1,561
Over 5 years	3,080	0	0	3,080

## 11 Movements in working capital other than cash

	<i>2005-06 £000</i>	<i>2004-05 £000</i>
(Increase)/decrease in stocks	5,696	(7,270)
(Increase)/decrease in debtors	(2,315)	(11,261)
Increase/(decrease) in creditors	(5,115)	21,736
	<b>(1,734)</b>	<b>3,205</b>

## 12 Movements on reserves

### 12.1 Income and Expenditure Reserve

	<i>2005-06 £000</i>	<i>2004-05 £000</i>
Balance at 1 April 2005	60,267	59,545
Prior period adjustment	0	0
Net operating costs for the year	1,429	722
Transfer from revenue to capital	0	0
<b>Balance at 31 March 2006</b>	<b>61,696</b>	<b>60,267</b>



## 12.2 Capital Reserve

	<b>2005-06</b> <i>£000</i>	<i>2004-05</i> <i>£000</i>
Balance at 1 April 2005	<b>26,177</b>	26,967
Net Parliamentary funding	<b>988</b>	2,176
Depreciation	<b>(976)</b>	(917)
Disposals	<b>(193)</b>	(2,243)
Impairments	<b>0</b>	(421)
Transfer from Revenue	<b>0</b>	0
Transfer ex-revaluation reserve current year	<b>0</b>	615
<b>Balance at 31 March 2006</b>	<b>25,996</b>	26,177

## 12.3 Revaluation Reserve

	<i>£000</i>	<i>£000</i>
Balance at 1 April 2005	<b>6,795</b>	7,693
Impairments	<b>0</b>	(2,566)
Indexation of fixed assets	<b>889</b>	2,584
Depreciation	<b>(108)</b>	(194)
Disposals	<b>0</b>	(107)
Transfer to Capital Reserve: realised revaluation	<b>0</b>	(615)
<b>Balance at 31 March 2006</b>	<b>7,576</b>	6,795

## 13 Reconciliation of operating costs to operating cash flows

	<i>Notes</i>	<b>2005-06</b> <i>£000</i>	<i>2004-05</i> <i>£000</i>
Surplus for the year		<b>1,429</b>	722
Brushing for life funding		<b>0</b>	(535)
Adjust for movements in working capital other than cash	11	<b>(1,734)</b>	3,205
Increase/(decrease) in provisions	10	<b>290</b>	(3,998)
<b>Net cash outflow from operating activities</b>		<b>(15)</b>	(606)

## 14 Contingent liabilities

There are no contingent liabilities (2004-05: £0)

## 15 Capital commitments

At 31 March 2006 the value of contracted capital commitments was £0. (2004-05 £0).

## 16 Commitments under operating leases

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

	<b>2005-06</b>	2004-05
	<b>£000</b>	£000
Hire of plant and machinery	<b>1,211</b>	1,108
Other operating leases	<b>920</b>	940
	<b><u>2,131</u></b>	<u>2,048</u>

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.

### Land and buildings

		<b>£000</b>	£000
Operating leases which expire:	within 1 year	<b>0</b>	0
	between 1 and 5 years	<b>27</b>	27
	after 5 years	<b>0</b>	0
		<b><u>27</u></b>	<u>27</u>

### Other leases

Operating leases which expire:	within 1 year	<b>26</b>	269
	between 1 and 5 years	<b>1,216</b>	336
	after 5 years	<b>0</b>	0
		<b><u>1,242</u></b>	<u>605</u>

## 17 Other commitments

The Authority has no other non-cancellable contracts as at 31 March 2006 (2004-05 £0)

The Authority has two major service contracts:

Bridgwater distribution centre contract: 7 year contract commencing 17 December 2001, value 2005-06 £5,755,003.

Transport main contract: 5 year contract commencing 1 July 2003, annualised value 2005-06 £17,041,804.

## 18 Losses and special payments

	£
Bad debts written off	1,764
Stock losses	585,635
Personal injury	46,752

There are no individual payments over £100,000.

Bad debts written off comprise of nine Non-NHS debtor balances.

Personal injury claims consists of eight personal injury claims with advice.

Stock losses consist of:	£
Write off past sell by date	138,345
Damaged in warehouse	260,396
Obsolete stock written off	186,894

## 19 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 i.e. sales and services to other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £764 million which represented trading with 570 individual organisations.

There are also sales of £1.3 million to other government departments including the Ministry of Defence.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £299,258, which represented trading with 13 individual organisations.

During the year, none of the Authority's members or members of the key management staff or other related parties has undertaken any material transactions with the Authority.

NHS Logistics made payments of £112 million on behalf of the Department of Health for the Childhood Immunisation Programme, £110 million for Civil Contingency stocks and £56 million for the National School Fruit and Vegetable Scheme. NHS Logistics acts as an Agent in these respects and the transactions do not form part of the NHS Logistics' accounts.

## 20 Post balance sheet events

The Department of Health are currently progressing with a market testing initiative to assess whether the NHS Logistics' function should be outsourced to the private sector. This process is now at preferred bidder stage and the Department of Health expect a final contract to be awarded with the contracting out of business activities during the summer of 2006.

## 21 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.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures other than from the currency profile.

### Liquidity risk

The Special Health Authority's net operating costs are financed from charges made to the NHS for goods plus an amount to cover the operating costs of the Authority. The Special Health Authority largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. NHS Logistics Special Health Authority is, therefore, exposed to some liquidity risk, as it needs to collect cash in order to pay its suppliers. Slow payment by trusts can result in loss of discounts and puts the achievement of paying suppliers within 30 days at risk.

### Interest-rate risk

100 per cent of the Authority's financial assets and 100 per cent of its financial liabilities carry nil or fixed rates of interest. NHS Logistics Special Health Authority is not, therefore, exposed to significant interest-rate risk.

### Foreign currency risk

The Authority has no foreign currency income or expenditure.

### Fair values

Fair values are not significantly different from book values and therefore no additional disclosure is required.

## 22 Intra-government balances

	<i>Debtors: Amounts falling due within 1 year £000</i>	<i>Debtors: Amounts falling due after more than 1 year £000</i>	<i>Creditors: Amounts falling due within 1 year £000</i>	<i>Creditors: Amounts falling due after more than 1 year £000</i>
<b>Balances with other central government bodies</b>	<b>1,379</b>	<b>0</b>	<b>21</b>	<b>0</b>
<b>Balances with local authorities</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>
<b>Balances with NHS Trusts</b>	<b>55,550</b>	<b>0</b>	<b>144</b>	<b>0</b>
<b>Balances with public corporations and trading funds</b>	<b>204</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balances with bodies external to government</b>	<b>6,205</b>	<b>0</b>	<b>37,977</b>	<b>0</b>
<b>At 31 March 2006</b>	<b>63,338</b>	<b>0</b>	<b>38,147</b>	<b>0</b>
Balances with other central government bodies	1,010	0	35	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	54,056	0	348	0
Balances with public corporations and trading funds	204	0	0	0
Balances with bodies external to government	5,753	0	42,842	0
At 31 March 2005	61,023	0	43,225	0

# Notes



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