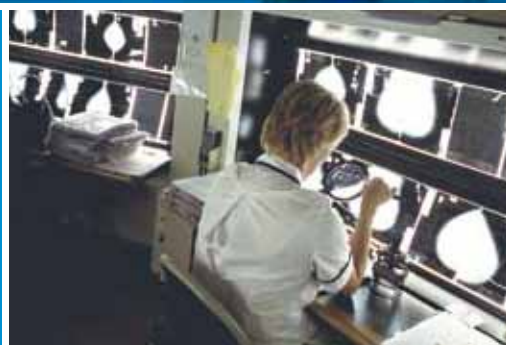




Annual Report and Accounts 2006/7



The Agency's aims, objectives and role

The Agency's aims, objectives and role are described in more detail in our Framework Agreement. They have been agreed with Ministers and are set out below.

The Agency's aim is to modernise and improve the performance of the NHS purchasing and supply system and become the centre of expertise, knowledge and excellence on matters of purchasing and supply for the benefit of patients and the public.

The Agency's objectives are to:

- ensure that purchasing and supply strategies reflect and contribute towards the achievement of ministers' policies, strategies and priorities for the NHS
- establish and implement an overall framework for the management of purchasing and supply in the NHS
- determine and control the appropriate level at which purchasing and supply decisions are made

- deliver a comprehensive and cost effective supply chain for the NHS
- ensure that improvements in the overall efficiency and effectiveness of the NHS are achieved through purchasing and supply arrangements at the appropriate level, and an integrated supply chain
- improve the skills, expertise and professionalism of NHS purchasing and supply staff
- increase NHS Board's awareness of purchasing and supply issues and improve their competence in handling them.

The Agency's role is to develop purchasing and supply policy for the NHS and to lead, and implement, fundamental change in the management of purchasing and supply across the NHS in England.

Annual Report and Accounts 2006/7

A solid blue horizontal bar that spans across the top right of the page, partially overlapping the title area.

Presented to the House of Commons
pursuant to section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 24 July 2007



© Crown Copyright 2007

The text in this document (excluding any Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any queries relating to the copyright in this document should be addressed to

The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.

Fax: 01603 723000 or e-mail: licensing@cabnet-office.x.gsi.gov.uk

Contents

The Agency's aims, objectives and role	inside front cover
Chief Operating Officer's foreword	06
Directors' report	08
Management commentary	10
Performance against objectives	12
A review of 2006/7	14
Remuneration report	26
Annual accounts	33



Chief Operating Officer's foreword

I am very pleased to have taken over as Chief Operating Officer for the NHS Purchasing and Supply Agency (NHS PASA) and to introduce the 2006/7 Annual Report. This has been a year of significant change for the Agency but I am delighted to report that staff have remained focused on delivery and each of our strategic objectives have been met in line with the Business Plan. I must mention in particular a number of areas:

- Agency sourcing savings for the year have totalled £496.5 million exceeding the Agency's target of £491.1 million. This includes savings as part of the Supply Chain Excellence Programme – National Contracts Procurement (SCEP NCP) project as well as the Agency's ongoing sourcing activity. Collaborative procurement hubs (CPHs) have also delivered their savings targets of £75.4 million achieved. The addition of these figures is expected to boost the CPH savings well beyond its target figure.
- An ambitious development agenda for the Centre for Evidence-based Purchasing (CEP) has been delivered with project prioritisation and project commissioning and delivery processes having been developed and agreed in year. This is in addition to significant customer engagement to redevelop CEP's products.
- The roll-out of CPHs has continued with eight hubs now operational and the remainder in progress. The strategic health authority (SHA) restructure has seen a change in this target to ensure that each SHA is now supported by a single CPH. Throughout the year we have worked to ensure that we are engaging with all SHAs.
- Our policy programme has seen significant activity with the establishment on 1 April 2007 of the Department of Health (DH) centre of expertise dedicated to supporting DH policy development and sourcing initiatives with NHS PASA resources and expertise. In addition the Agency has led the development of a response to the industry led sustainable procurement taskforce recommendations on behalf of the healthcare sector.

A key development in the year was the outsourcing of NHS Logistics and that part of the Agency providing procurement support to the health consumables supply chain. We worked hard to manage the transition to the new service provider, NHS Supply Chain and build relationships within the reconfigured supply landscape. The Agency is committed to working collaboratively with NHS Supply Chain to ensure that the NHS gains maximum benefit from the outsource contract.



In February 2007, HM Treasury published its report *Transforming government procurement*. This “unveils a range of public procurement reforms to equip the UK in the next decade with the capability to deliver world class public services in the face of growing challenges of global competition, changing demographics and increasing pressures on natural resources”. This is the first major reshaping of the public procurement agenda since the Office of Government Commerce was established.

We recognise that this report will have an impact on NHS procurement, and we are building on our close relationship with the Office of Government Commerce to ensure that the report’s requirements are met. The collaborative approach to procurement recommended by the report has always been part of the Agency’s agenda.

Finally, and on a personal note, this year saw the retirement of Duncan Eaton. Duncan had been the Agency’s Chief Executive since it was set up in 2000 and made a key contribution to modernising procurement in the NHS. Savings delivered to the NHS through the Agency’s contracts in his tenure far exceed £1 billion, a great achievement.

A handwritten signature in black ink, appearing to read 'John Cooper'.

John Cooper
Chief Operating Officer

Directors' report



Background information

The NHS Purchasing and Supply Agency was formed on 1 April 2000 as an executive agency of the Department of Health, following recommendations made in the Cabinet Office *Review of NHS Procurement* (November 1998). The Agency and its partner organisation, NHS Logistics Authority, were formed from the special health authority NHS Supplies, which ceased to exist from 31 March 2000.

In previous years, the Agency has been managed by a team of officers led by the Chief Executive. The Chief Executive left the Agency at the end of June 2006 and a Chief Operating Officer post was created by our Departmental Sponsor. The Chief Operating Officer was appointed the Accounting Officer for the Agency by the Acting Permanent Secretary. All of the senior management team are Civil Servants, employed on full terms and conditions. The remuneration of the team is determined by a standard process which is detailed in the Department of Health's *Pay and Performance Management* document. Details are given in the remuneration report.

Management Executive

During 2006/7 the senior management team of the NHS Purchasing and Supply Agency comprised:

Duncan Eaton	Chief Executive
	<i>(Left the Agency 30.06.06)</i>
Robert Knott	Chief Operating Officer
	<i>(From 23.02.06 to 13.10.06)</i>
John Cooper	Director <i>(To 13.10.06)</i>
	Chief Operating Officer
	<i>(From 16.10.06)</i>
Neil Argyle	Director
	<i>(Left the agency 31.10.06)</i>
Marcus Brindle	Director
Clem Brohier	Director of Finance
Alyson Gerner	Director
	<i>(Left the agency 01.01.07)</i>
Helen MacCarthy	Director
Andrew Rudd	Director
Chris Theaker	Director
Chris Uden	Director
John Warrington	Director

Audit Committee

The Agency's Audit Committee advises the Accounting Officer on issues relating to corporate governance, internal control and matters relating to audit of the Agency. Meetings are also attended by the Agency's Director of Finance.



NHS PASA fraud policy

It has been a matter of practice that incidence of fraud is on the agenda of all Audit Committee meetings and it should be noted that, during the current membership, no issue of known or suspected fraud has been brought to the attention of the committee. Additionally the Fraud Response Plan has now made it a matter of procedure that any incident of suspected or actual fraud is reported directly by the Head of Corporate Communications to the Chairman of the Audit Committee without delay.

There has recently been a review of NHS PASA fraud policy and fraud disclosure policies taking into account existing policy documents and drawing on best practice guidance from other NHS and public sector bodies.

Governance

The Chief Executive is accountable to the Secretary of State. Both the Chief Executive and the Agency operate under a framework document that was published in January 2001. On the departure of the Chief Executive part way through the year, the Chief Operating Officer was appointed as the Accounting Officer for the Agency by the Permanent Secretary to the Secretary of State for the DH for an interim period, pending decisions on the review of the Commercial Directorate and NHS PASA. The NHS Purchasing and Supply Agency works to a three year Corporate Plan and to an annual Business Plan. These are submitted to the Senior Departmental Sponsor and approved by the Parliamentary Under Secretary of State, the Minister responsible for the Agency.

The aims and objectives of the Agency are shown in the inside front cover of the annual report.

Regulatory framework

The Agency has prepared the financial statements for the year ended 31 March 2007 in accordance with the Government Financial Reporting Manual, as directed by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Agency's auditors are unaware.

The Comptroller and Auditor General is the appointed auditor of the Agency under the Government Resource and Accounts Act 2000.

Pension liabilities

The Agency's pension liabilities are described in the remuneration report and in the notes to the accounts, reference number 1h.

Register of interests

No members of the Management Executive held corporate directorships or other significant interests which may have conflicted with their management responsibilities.

Management commentary



Operating results for the period

The NHS Purchasing and Supply Agency is an executive agency of the Department of Health and is funded from the Department of Health *Request for Resources 2* (RfR2).

The Agency works to a fixed resource budget which is agreed with the Department of Health annually.

The Agency's budget for 2006/7 was £26.8 million for revenue expenditure and £0.6 million for capital expenditure.

Revenue expenditure incurred in 2006/7 was £26.7 million and capital expenditure was £0.5 million.

The resource budget for 2007/8 has been notified to be £28.1 million.

A brief review of principal activities

The Agency exists to improve the performance of the NHS in its procurement activities, with the objective of delivering better value for money. The Agency's activities and achievements during 2006/7 are described more fully later in the annual report. Highlights have been:

- Agency sourcing savings for the year of £496.5 million exceeding the Agency's target of £491.1 million. In other words for every £1 invested in the Agency, in excess of £18 savings was saved by the NHS, money which could be invested back into patient care
- promoting and co-ordinating the establishment of collaborative procurement hubs (groups of NHS trusts co-operating to obtain better value)
- the further development of the Centre for Evidence-based Purchasing within the Agency

- the transfer of procurement activities related to the outsourcing of NHS Logistics to NHS Supply Chain
- the establishment of the Department of Health (DH) Centre of Expertise dedicated to supporting policy development and sourcing initiatives
- the Agency led the response to the Industry led sustainable procurement taskforce recommendations on behalf of the healthcare sector.

Research and development

The Agency has formal links with the Centre for Research into Strategic Purchasing and Supply (CRiSPS), sponsoring a chair in purchasing and supply at the University of Bath. In addition to ongoing work with CRiSPS the Agency also engages in research projects covering issues of relevance to wider NHS policy.

Employee consultation

The average number of staff employed during the year (measured as a whole time equivalent) was 321.

The Agency places considerable importance on the involvement of its employees. It makes every effort to ensure that all staff are kept informed of the Agency's plans. The main channels of communication include regular presentations to all staff, newsletters (both email and print) and regular staff briefings supported by regular consultative meetings with the Departmental Trade Union side. The Agency is accredited with Investors in People.



Equal opportunity

The NHS Purchasing and Supply Agency is an equal opportunities employer and provides employment opportunities and advancement for all suitably qualified persons regardless of gender, religion, ethnic origin or disability.

Recruitment statistics – April 2006 to March 2007

As staff leave the Agency we seek the best talent to replace them. Although we do recruit from within the Agency, the Department of Health and other government departments, many of our staff are recruited from outside the Civil Service.

28 new staff were appointed through external recruitment exercises, all of which were conducted on the basis of fair and open competition and selection on merit. Of the appointments made, 72% were women and 12% from ethnic minorities (for applicants, 70% were women. We were not able to measure the ethnic origin of applicants this year).

We recruited in accordance with the Civil Service Commissioners' Code.

Payment of suppliers

The Agency is required to pay its trade creditors in accordance with the Better Payment Practice Code, i.e. to pay all trade creditors within 30 days of receipt of a valid invoice, unless other payment terms have been agreed with the supplier.

Political and charitable gifts

No political or charitable gifts were made during the year.

The results for the year were:

	2006/7	2005/6
Percentage of suppliers' invoices paid within 30 days	93%	94%
Average payment time, in days	12	13
Value of invoices paid, in millions	11.4	9.5

During the year late payment interest charges totalling £119 were paid under the Late Payment of Commercial Debts (Interest) Act 1998

Performance against objectives 2006/7



Objective 1: Deliver efficiency and savings targets through a strategic approach to purchasing and supply

- The Agency's actual in-year savings target, including National Contracts Procurement (NCP) contracts starting after April was £491.1 million. Between 1 April 2006 and 31 March 2007, NHS PASA delivered savings of £496.5 million, exceeding our target by £5.4 million.
- Collaborative procurement has achieved in-year savings of £75.4 million.

Objective 2: Deliver collaborative procurement hubs

- Significant progress has been made during 2006/7 in establishing CPHs and all strategic health authorities have now been engaged by NHS PASA towards becoming a part of the CPH roll-out programme.

Objective 3: Deliver the Centre for Evidence-based Purchasing

- CEP has continued to work towards the indicative three year outputs stated in the 2006/7 Business Plan. The CEP work plan currently includes 73 projects either in progress or scheduled to begin in 2007/8.
- Beyond this CEP set itself challenging Business Plan targets for driving the development of the organisation:
- a new web-based project management system has been introduced across all current providers with potential to include all new providers. Project managers have been trained and the transfer of ownership of projects to CEP centres is underway a process for prioritising project proposals has been developed including the appointment of a prioritisation board to commission and

ensure the delivery of CEP projects. Through this, a prioritised work-programme has been developed and published on the NHS PASA website

- stakeholder engagement has continued throughout the year including early engagement with CPHs and NHS Supply Chain
- project scope is being prepared to identify options for reconfiguring the current CEP provider base
- the first of a new a range of new CEP products has been delivered to meet the changing needs of CEP needs of stakeholders.

Objective 4: Deliver DH and wider Government policies through procurement

- The DH Policy and Procurement Advisory Unit (PPAU) has continued to support the Department of Health procurement activities. Over the course of the year the unit provided support to 36 DH projects including a contract for training Iraqi doctors in the UK in the NHS, a contract for the development of quality standards for the NHS, third sector and private sector and a framework agreement for dispensing methadone to prisoners.
- The Agency has been working with the Department to set in place a Centre of Expertise for Procurement. Building on the work of the PPAU, the Centre of Expertise will become operational by 31 March. Working through the Department's 'Business Partnering' system, the Centre will support all of the Department's procurement activity and will enable the creation of Department procurement strategy.



- The Agency has led the health response to Sustainable Procurement Task Force, the interim response was published in March 2007.
 - The Agency has continued to meet the demands of the DH emergency preparedness and health protection departments. This included leading the health supplies response in exercise Winter Willow and significant participation in the DH's ongoing flu planning work.
 - A project was established to demonstrate that procurement can be used as lever for improving patient safety. Focusing on injectable medicines, a business case was prepared and approved, a project initiation document developed and approved, a project team mobilised and pilot trusts identified. Stakeholder engagement commenced during the year in preparation for the launch of the pilot programme, with key deliverables scheduled to accrue during 2007/8.
- Objective 5: Improving our capability, efficiency and effectiveness**
- Manage transition to integrated consumables supply chain. The Agency supported this process through the outsourcing of NHS Logistics and the Agency's own associated procurement areas. We have continued to work closely with the new NHS Supply Chain to ensure seamless transfer.
 - Managing our people resources:
 - the Agency's accreditation to the Investors in People standard (IIP) was reassessed during 2006/7 and re-awarded.
 - our headcount remained within the target set by Department of Health throughout the year
 - 71% of procurement staff have, or are actively working towards, professional qualifications (IP3 or above)
 - 10.5% of staff left the Agency in the year, this compares favourably with the Chartered Institute of Personnel and Development (CIPD) sector average of 18%
 - our staff sickness of 2.8% remains significantly below the CIPD average for central government of 4%.
 - Over the course of the year we have identified four key business processes in which we have invested significant time and energy to improve the effectiveness with which they are undertaken. The four processes are: strategic sourcing, project management, supplier relationship management and customer relationship management.
 - Corporate efficiencies of £1.164 million were achieved over the course of the year.
 - Through the effective management of our financial resources, we have remained within budget throughout 2006/7.
 - The Agency has met all of the requirements of the framework for sustainable development on the government estate, these targets are now part of the Agency's ongoing operational sustainability targets.

A review of 2006/07



NATIONAL PROCUREMENT

Contracting activity

The Agency managed contracts with value of £4,677 million in the year (£3,235 NHS PASA, £1,441 million NHS Supply Chain).

During the year the Agency supported the establishment of 152 new framework agreements. In total, 1,021 supplier contracts were awarded during the year.

As well as undertaking work on the 387 NHS PASA live agreements, the Agency continued to support the 613 NHS Supply Chain live agreements with savings, benefits tracking and other data analysis work.

SCEP

The Agency has deployed internal and external resource under its 90 Day Uptake Plan which was initiated to accelerate the rate at which the SCEP framework agreements are implemented across the NHS.

The plan has been implemented using a robust programme and project management approach to ensure efficient use of available resource and effective targeting of NHS trusts. High priority strategic health authorities and trusts have been given additional support to secure wider NHS commitment to use the framework agreements.

Agency staffing

The first ever multi-regional agreement for agency nurses was launched on 1 October 2006. It is available to all regions outside London, and, largely by aligning agency nursing pay rates to those of substantive staff, will deliver projected savings of £40 million against a spend of £150 million.

This year the Agency was invited by the National Audit Office, to form part of the advisory board on and contribute to the drafting of their report on temporary nursing staff in the NHS. We have already implemented and where possible exceeded all recommendations from the report which are applicable to the Agency, including a requirement that every nurse agency on a national framework agreement is audited. As a result, auditing is now a rolling annual programme for nurse agencies under the framework.

As part of the Agency's ongoing drive to make our services as efficient as possible for our end user organisations, a national NHS-facing, web-enabled agency information system was delivered in the latter quarter of 2006, in conjunction with the launch of the multi-regional agreement for agency nurses. This service, which had previously been piloted as part of the London Agency Project, now permits suppliers to post sales information for all regions on the NHS restricted section of the Agency website. This then enables NHS trusts to run a variety of comparison exercise, including price and job band, across all nurse agencies contracted under the framework in their area.

Medical and GP locums

2006 saw a critical year in the implementation of the Agency audit process on suppliers of medical and GP locums. A small number of agencies were removed from the framework with immediate effect, due to critical failures on core audit criteria. However, overall the results demonstrated the value of the audit process in upholding the quality of agencies contracted and helped strengthen the reputation of the framework itself.



Over the course of the year, the Agency has been invited to become involved in a number of national projects concerned with medical and GP locums. As a result, we have responded to and commented on national issues raised in the Chief Medical Officer's *Good doctors; Safer patients* report and also formed part of the national collaboration on mental health locums established by the Department of Health and NHS Employers to help understand and improve the challenges facing mental health locums.

In addition, the successful implementation of the medical and GP locum framework in individual regions has resulted in increased interest from the surrounding areas. Our work with the North East Collaborative has led to the adoption of the framework in neighbouring Yorkshire and the Humber SHA. Projects such as this are proving useful in strengthening the relationships between the Agency and collaborative hubs and groups.

Health Science Service (HSS)

The Agency established its first ever national framework agreement for the supply of temporary HSS staff in April 2006. The decision to create a framework dedicated to HSS staff was in part a reflection of the inclusion of HSS as a job family under *Agenda for Change* and also in recognition of the substantial spend on HSS professions and grades, in particular pharmacy and biomedical sciences.

There has been significant progression with uptake of the framework over the months following the launch. A partnership forged with the North West SHA and the North West Collaborative Procurement Hub has led to a successful implementation in the region, several master vendor (sole supplier) agreements have already been set up in London and roll out of the framework is continuing across the regions.

Administrative services

The second, expanded, national framework for the supply of temporary administrative services staff has met with considerable success since its launch in April 2006. An early indicator of its success is that throughput under the new framework already exceeds that under the previous agreement.

The increased uptake has been driven by the fact that the new framework has now been significantly broadened to cover all professional services not covered under other Agency frameworks, including finance, IT, human resources and procurement, in addition to the original administrative and clerical roles. The framework also now encompasses a wider range of responsibilities, in line with *Agenda for Change* job bands 1 to 9. This has resulted in an encouraging increase in the number of senior level roles, particularly in finance, fulfilled under the framework.

Allied health professionals (AHPs)

With the intention of building upon the success of its predecessor, the first national framework for AHP staff, the second framework for the supply of temporary AHP and associated staff began on the 24 April 2006. As the name change implies, the new framework has been expanded to include all professions and grades covered by the *Agenda for Change* AHP job family. In conjunction with the expansion, the framework's terms and conditions have been revised and improved and a newly competitive pricing structure implemented.

A review of 2006/7

Another development of the new framework has been the introduction of an active structured supplier management programme in conjunction with a full audit programme of agencies contracted under the framework, as a mechanism to help trusts manage their AHP clinical governance requirements.

The launch of the new framework was publicised nationally by a series of presentations to AHP and supply leads and has been supported in the field through the development and release of a bespoke information pack targeted at frontline users of the NFA.

Overall 2006 saw an increased uptake across the country of the Agency's new AHP framework compared to the first, with sole supplier (master vendor model) agreements now established in a substantial number of regions.

Decontamination equipment trading site

The Agency has developed a website which allows NHS trusts to trade surplus decontamination equipment. The online service helps trusts to dispose of surplus equipment cost-effectively and with minimal risk to the NHS. The website has been established as part of the National Decontamination Initiative. Many areas of the NHS will be shifting from being predominately a provider of sterile services to being a customer. As part of this shift, a significant number of NHS central sterilisation departments, and other local areas where reprocessing of surgical instruments occurs, will be replaced with new modern privately operated facilities and will therefore have surplus equipment.

Energy

The Energy Team has continued to secure a high level of uptake of its frameworks and energy contracts (circa. 90%) through seeking commitment from trusts in advance of the tendering process.

This allows the energy team to continue to roll-out gas and electricity procurement direct through the live wholesale market to maximise savings to the trusts. In the summer of 2006 the Agency had the flexibility to forward purchase significant volume. Coupled with day ahead purchases this provided on average 17% below average market price and a £4.5 million saving.

Fleet

The Agency seconded its Fleet Category Manager to the Office of Government Commerce (OGC) in June 2006 for a period of two years to provide support on a range of pan-government procurement projects. The first of these has recently been launched covering the provision of tyres for the public sector worth over £120 million over the three year period.

Fast response vehicles

As part of the introduction of new approaches to emergency vehicle provision, The Agency launched its car-based fast response vehicle agreement during 2006/7 following a period of development with the NHS ambulance trusts.



Laundry and linen services

2 May 2007 saw the introduction of the first national framework agreement for laundry and linen services, an area with a national NHS spend of £166 million per annum. The agreement maximises the use of available production capacity through regionally awarded agreements to ten suppliers from both the commercial sector and also the NHS internal market. The development of the agreement was supported by user representation that reflects over 70% of the total NHS spend.

The agreement places emphasis on quality aspects of service delivery. It provides a basis for trusts to let bespoke contracts that fully reflect local needs whilst benefiting from the economies of scale savings generated through the aggregation of the total NHS demand.

Leasing

Development work has been completed on the first ever national framework for leasing which will be signed in Spring 2007. It will help the NHS procure their leases more cost efficiently and effectively. It provides a selection of suitably qualified financial institutions (lessors) who can fund operating leases for a variety of medical and non-medical assets with no pre-determined capital value to the NHS. The framework, available for use across the NHS, is valued at an estimate £0.5 million per annum. The NHS will see major benefits in reduced timescales in tendering their lease requirements and increased competition for smaller lease contracts.

Sterilisation service departments procurement

To assist trusts in evaluating their current procurement or identifying new options due to changes within the sterile service provision, the Agency has produced an options paper for the procurement of products associated with sterilisation service departments (SSD). The purpose of the paper is to provide NHS trusts with information on contracting and supply route options as well as considerations for assessing the supply of consumables associated with SSDs. The information will contribute towards an independent evaluation of all available options to identify the supply route most appropriate to meet the individual needs of that trust in terms of service, quality and value for money.

Sourcing of medicines

The Pharmaceutical Directorate undertakes sourcing activity for both branded and generic medicines for use within secondary care in the NHS. This work is in partnership with pharmacists. Two groups are key to determining the supply and sourcing strategies. These groups are the National Pharmaceutical Supply Group and the Pharmacy Market Support Group. The groups consist of senior managers working within pharmacy including procurement pharmacists, regional representatives and quality control representatives.

Agreements are supported by NHS PASA category team members providing support to adjudications, analysis of benefits, and identifying and resolving contract variances and supply issues.

SUPPORTING/MODERNISING NHS PROCUREMENT

Outsourcing of NHS Logistics and related category staff to NHS Supply Chain

The TUPE transfer of 90 whole time equivalent posts including 75 staff from NHS PASA to NHS Supply Chain on 1 October 2006 was a complex project requiring detailed assessment, due diligence and transfer arrangements. The phased nature of staff identification leading into the transfer was particularly challenging and was facilitated by a close working relationship between the management and trade union

Collaborative procurement hub (CPH) programme

The Agency is responsible for rolling out the CPH programme, which was launched as part of the Supply Chain Excellence Programme. The aim is to have a CPH available to every NHS trust in England by the end of March 2008, coterminous with strategic health authority (SHA) boundaries wherever possible, and almost all will typically have a non-pay influenceable spend in excess of £1 billion.

CPHs will continue to work towards their savings target (set as part of the SCEP project in 2005) of £270 million by March 2008.

In October 2006, two of the three pathfinder hubs (Lifesource and CPC) merged with the West Midlands Alliance to form a fully coterminous hub for the West Midlands, serving the whole NHS community in that area.

Significant progress has been made during 2006/7 in establishing CPHs and all SHAs have now been engaged by the Agency towards becoming part of the CPH roll-out programme; NHS London is at an early stage in the process.

NHS London is developing its own strategic sourcing programme, the London Procurement Programme. All other SHAs have established CPHs in their boundaries or are either mobilising, or are undertaking an opportunity assessment in supporting a business case for establishing them.

Centre for Evidence-based Purchasing (CEP)

During 2006/7 the focus for CEP has been on establishing processes and infrastructure, developing new outputs and building capacity, including the recruitment of key senior staff and an economic adviser.

Processes for the selection and prioritisation of projects have been established and a CEP Prioritisation Board, made up from key stakeholders, met three times in the year to consider a total of 122 project proposals. Of these 71 were successful and have now been included in the CEP work-programme. In November CEP published its first new output, an evidence review of the Bardex silver-coated catheter.

CEP has continued to build on existing stakeholder relationships, in particular industry stakeholders via the creation of a CEP industry liaison group. CEP has also played an active part in the creation of the innovation landscape, working closely with the National Innovation Centre (NIC).

In support of the Healthcare Industry Task Force (HITF) recommendation around strengthening the assessment of value, CEP commissioned four pilot projects that aim to create a common understanding of value across a diverse range of technologies. The projects are being supported by both the Centre for Research in Strategic Purchasing and Supply (CRiSPs) at Bath University and the Multidisciplinary Assessment of Technology Centre for Healthcare (MATCH) and will be completed in 2007.



People development

The Agency has provided over 1,200 places of basic operational training to staff in procurement roles across the NHS. This is delivered via a group of 36 NHS supplies managers across a range of eight modules. A national framework agreement continues to be available to the NHS for the delivery of procurement and category management training.

A third cycle of the NHS Procurement Leadership Programme was delivered. This programme develops change management competences amongst senior CPH managers.

We have also been instrumental in the development of a set of CPH national *Agenda for Change* procurement job profiles.

Significant investment is made in our own staff; 71% of staff at HEO grade and above either have or are working towards a relevant professional qualification.

A new electronic HR system was introduced during the year incorporating a self service facility to improve the effectiveness of HR processes and reporting.

SUPPORTING GOVERNMENT AND DEPARTMENTAL INITIATIVES

Supporting the Healthcare Industry Task Force

As part of its innovation agenda the Agency has been continuing to work in partnership with the healthcare industry, the Department of Health and its agencies, NHS clinicians and NHS collaborative procurement organisations towards delivering the output for procurement processes within the Healthcare Industries Task Force (HITF) Report (HITF report *Better health through partnership: a programme for action 2004*

www.advisorybodies.doh.gov.uk/hitf).

This work has culminated in the development of a procurement framework for the NHS together with a comprehensive series of toolkits and methods to be followed. By adopting this framework, the NHS, and particularly the collaborative procurement organisations, will be able to demonstrate its commitment to embedding modern approaches to procurement to deliver better value for the service of patients.

The report published in March 2007 (also available at www.advisorybodies.doh.gov.uk/hitf) of the HITF Strategic Implementation Group, co-chaired by Lord Hunt and Sir Christopher O'Donnell is *Innovation for Health: Making a difference*. It sets out the results of the major work programme undertaken since the original report in 2004.

It provides a series of recommendations, the first of which recommends implementation of the procurement framework across the NHS as follows:

*"Procurement of technology and innovation within the NHS: The HITF purpose was to embed modern approaches to procurement in the NHS through best practice, supplier involvement and better clarity on levels of market access. Taken together, these would ensure that procurement takes proper account of the deployment of innovation in promoting value for money. This has been further supported both by the Cooksey Review and by Transforming Government Procurement. * Joint work between government and industry has produced a clear agenda that has resulted in the development of a procurement framework for NHS collaborative procurement organisations. SIG recommends that this model should be implemented across the NHS (including NHS Supply Chain) in a way that involves key stakeholders, including patients and industry, and helps ensure a level playing field for SMEs in the local economy. Collaborative procurement hubs should take the lead on accountability for delivery of the range of benefits identified in the procurement framework"*

*Published in January 2007 and available at: www.hm-treasury.gov.uk

A review of 2006/7

Equality

The Department of Health has recently launched its Single Equality Scheme, the purpose of which is to embed key issues of equality and diversity into systems, processes, policies and thinking. The scheme is an integrated approach which will enable DH and its executive agencies to demonstrate full compliance with existing duties on race, gender, disability and take into account the forthcoming duty on age, religion and belief, and sexual orientation. DH has launched a three year central action plan and the Agency has started work to develop its own complementary action plan in support.

The Agency continued its participation as a pilot in the Department of Health-funded Mosaic Project, an initiative that promotes race equality in procurement. This involved training for the Agency's staff and contributing to the continuing direction of the project via membership of the project board.

Food

In response to the National Audit Office Report – *Smarter Food Procurement in the Public Sector*, the Agency has played a leading role in the cross-government working group which aims to deliver the recommendations set out by the NAO. The Agency has led on:

- benchmarking
 - collaborative food procurement
 - developing greater uniformity in food specifications used across the public sector.
- The Agency's Chief Operating Officer reported progress to the Public Accounts Committee in October 2006.

The Agency has been producing quarterly updates to identify progress against Public Sector Food Procurement Initiative (PSFPI). Good progress was achieved against all targets.

Emergency planning

We have worked closely with DH Emergency Preparedness Department, providing commercial support and project management on seven projects worth approximately £21 million. These projects are focused on improving UK contingency capability in the event of a major incident and reflect emergency services experiences and recommendations arising from reports on the 7 July 2005 bombings in London.

Pandemic planning

The vaccine team has continued to provide purchasing and technical support to the Department of Health to underpin the plans for an influenza pandemic.

This has entailed extensive work on pandemic vaccines including the supply of H5N1 vaccines.

Childhood vaccines

In September 2006 two new vaccines were introduced into the childhood vaccination schedule, conjugated pneumococcal vaccine and a combined meningitis C and Hib vaccine. The vaccine team procured supplies of both of these vaccines in advance of their introduction as well as working with NHS Logistics and the Department of Health on the distribution of these vaccines to GP clinics and hospitals in ready for the start date. Policy changes also entailed adjustments to the contracts for meningitis C vaccine to reflect the change from a three to a two dose schedule. The introduction of both new vaccines has been achieved with no delays in vaccine availability.

Telecare – supporting the DH long term conditions whole system demonstrators programme

The government white paper: *Our Health, our care, our say* (January 2006) gave a commitment to develop services using telecare as part of the wider delivery of DH policy.



Telecare equipment is provided to support an individual in their home and tailored to meet their needs. Services range from basic community alarm services which are able to respond to an emergency and provide regular contact by telephone to integrated systems that include detectors or monitors (ie motion, falls, fire and gas) that trigger a warning to a response centre.

NHS PASA is a member of the DH Long Term Conditions Whole System Demonstrators Programme Steering Group, and, in support of the white paper and the allocation of a Department of Health £80 million preventative technology grant to local authorities, the Agency negotiated a four year national framework agreement (NFA) for telecare.

The telecare NFA was developed via a cross government project management group, led by the Agency and involving the Department of Health, NHS Connecting for Health, Office of Government Commerce, Regional Centre for Excellence (South East) and Care Services Improvement Partnership.

It has been developed specifically for local authorities, developing a new area of cross public sector activity for the Agency. It has also allowed us to establish links within the housing sector, with the collaborative work with the Northern Housing Consortium a notable example.

The introduction of the telecare NFA, has seen a reduction in cost of approximately 14% for the purchase of equipment. By developing the telecare NFA for use across the public sector it is estimated that efficiency savings in the region of £27 million have been achieved.

Sustainable development

This year has seen the focus on sustainable development increase dramatically in government and across the public sector. Key reports issued this year, relating to sustainable procurement and climate change,

have identified a range of challenges that the Agency and the health sector as a whole will need to tackle over the coming year and beyond.

In response to the Sustainable Procurement Task Force (SPTF) report issued in June 2006 the Agency published its *Sustainable Procurement Policy, Strategy, and Action Plan* in October 2006 setting out the key actions the Agency will focus on to develop sustainable procurement practice and performance internally and across the NHS. A key feature of the strategy is the achievement of level 2 in all areas on the SPTF Flexible Framework for April 2007 (exceeding the recommendation for all government departments of level 1 in all areas). This has been achieved with the delivery of training to all procurement staff in the Agency, the development and dissemination of procurer guidance for the Waste, Electrical and Electronic Equipment Directive (WEEE) regulations, the prioritisation of supply areas to focus detailed work, the enhancement of procurement procedures and tools and the introduction of some basic management performance measures.

In addition the Agency has been central to the development of the interim response for health and social care in the Government's Sustainable Procurement Action Plan (SPAP) issued in March 2007 and will be taking the lead on the production of a full response for health and social care for summer 2007.

Waste

The Agency has been providing significant support to collaborative procurement hubs through the range of national agreements. A particular focus has been the better management of waste. The NHS spend on waste disposal is approximately £50 million. The Agency has set up a framework which includes training on improved waste segregation and environmental benefits from correct disposal methods. Savings of £17 million could accrue from the framework.

A review of 2006/7

Advisory Committee for Borderline Substances (ACBS)

The ACBS is a UK advisory non-departmental public body, sponsored by the Department of Health. Its role is to recommend to GPs the circumstances under which they should prescribe products which are not drugs and not medical devices to patients at NHS expense.

Discussions have taken place during 2006 with DH, the ALB review team and NICE concerning transfer of responsibility for provision of the secretariat for the committee from NICE to the Agency.

This transfer of responsibility is effective from 1 April 2007.

The Agency has also agreed to take on an additional scoping exercise to identify future development opportunities including consideration of the future composition, remit and functioning of both the ACBS and the Agency's role in this area.

Estimated expenditure in this area is in excess of £200 million per annum within primary care. There is also a smaller market for many of these products with secondary healthcare.

DEVELOPING THE AGENCY'S INFRASTRUCTURE

Logistics directorate

From April to October 2006 NHS PASA staff provided a procurement service to the NHS Logistics Authority. This service was provided by establishing a dedicated NHS Logistics procurement directorate consisting of 51 staff members. Management arrangements were via a senior NHS PASA manager undertaking a secondment to NHS Logistics and working as part of the NHS Logistics senior management team.

Key activities of the team included delivery of a procurement service, price setting, strategic market management, development of customer advisory groups and uptake planning. Product categories managed included medical devices, dressings, food, cleaning consumables and stationery. The team also contributed to activity associated with the market testing of NHS Logistics and associated procurement activity up to October 2006 when the business transferred to NHS Supply Chain.

Estates

The Agency's estates function has constantly sought to support corporate objectives by ensuring a cost effective estates solution and to provide a safe, comfortable and appropriate working environment.

During 2006/7 it has met all necessary estates related standards as part of ISO 14001 (Quality), OHSAS 18001 (Occupational Health) and ISO 14001 (Environmental Management). This has led to the Agency's recognition by Department of Health's estates function as an example of best estates environmental management practice.

Communications – new websites

New websites were developed and launched this year for both the www and the NHS community's nww site. The development was fully informed by outputs from focus group meetings held with key stakeholder groups. The website aims to be easier to use, more dynamic and easier to keep up to date. It complies with W3C AAA accessibility standards and features a comprehensive search facility giving immediate location items of interest.



Initial designs for a new intranet for the Agency's staff have been completed and are being implemented. This is part of a two stage project to deliver improved intranet business and general functionality to all desktops and allow for any required changes in the business structure.

Records management

This was an extremely busy and challenging year which included working with The National Archives to inform and help design electronic records management systems of the future.

The outsourcing of NHS PASA's categories to NHS Supply Chain required a major project involving the systematic identification and transfer of all electronic and paper records to be transferred to NHS Supply Chain to enable it to work effectively from its inception.

DH procurement centre of excellence

The Agency has developed a procurement centre of excellence for DH. The centre of excellence's main focus is to embed good procurement practice across the Department. It will support the delivery of the Department's strategic aims and objectives using best practice procurement methods to influence its non-pay expenditure on goods and services.

The Agency will host the centre of excellence, which will provide structured commercial and procurement support to DH projects. It will also deliver expertise covering:

- value for money on non pay spend
- risk management and legal compliance
- strategic overview of procurement projects

Procurement enablement

Establishment of the Procurement Enablement Directorate marked the start of working in the new, matrix structure for the Agency. Procurement enablement provides a pool of flexible resource of sourcing specialist and data analysts, who are deployed to work on procurement projects with category teams.

Commercial intelligence

The aim of the commercial intelligence programme is to systematically gather and process business information relevant to health, health impacts, health economics and other related topics, and to transform such information into actionable management information for decision making in the procurement process.

A pilot has been conducted in energy, homecare and patient safety areas. The main aim of the pilot was to use the principles of commercial intelligence and to prove its concepts and suitability for wider Agency use. The pilot phase concluded in March 2007 and produced recommendations for completing the exercises identified in the pilots within categories and focussing on supplier intelligence and management strategy in the next year.

E-PROCUREMENT

NHS Procurement eEnablement strategy

Working in conjunction with NHS trusts and collaborative procurement hubs, the Agency has established a NHS stakeholder group to drive forward the use of eEnablement technologies in NHS procurement. A strategy that sets the direction of travel and key standards for the NHS has been developed and is due to be published in June 2007. The implementation of the strategy will be supported by a series of on-going work streams that will be managed by the NHS stakeholder group.

eSourcing

NHS PASA is the only government body to adopt a 100% use of eTendering for its contracts. NHS PASA achieved a finalist nomination in the eGovernment national awards for 2006 in the e-Government excellence: Leadership and Professionalism category.

During the year NHS PASA held two of the largest eAuctions in Europe with regard to the number of suppliers, the total value of the eAuction and the savings achieved.

- The total baseline value of contracts subject to eAuction was £157,365,619.
- Tender savings against baselines was £310,073.
- Additional eAuction saving was £40,920,748.
- The total cost of running the eAuctions was £69,855.

eCatalogues

The pharmacy catalogue has been published on the web replacing a monthly postal distribution of CDs to NHS trusts in England. The web catalogue has 1,118 registered users and contains information on nearly 20,000 pharmaceutical products within 296 national and regional contracts.

A major development was completed on the lease car catalogue that enables suppliers to load and maintain their own data. This has improved the accuracy of the information held in the catalogue and reduced the administrative workload.

The Agency's main catalogue NHS eCat has been extended with the inclusion of telecare products and services to local authorities, social care and housing associations in addition to the NHS.

IT development

The Agency has developed an integrated benefits tracking tool which went live in December 2006. The system reports benefits, spend and uptake. The system currently reports on SCEP spend and savings and will be fully populated with all Agency contracts by July 2007.

Further developments of the Pharmex system have enabled the inclusion of general and some specialised pharmacy contracts into its benefits reporting. The system now provides complete visibility of purchases for pharmaceuticals in secondary care as well as realised benefits and uptake. Pharmex has also been used to support medicines management and supply chain improvement projects.



Other major IT developments include:

- Microsoft Project Enterprise to support the Centre for Evidence-based Purchasing
- a master supplier database to provide a managed central source of all information relating to suppliers to the NHS
- an uptake management tool to provide a facility for monitoring uptake of contracts by the NHS.

Programme management

An internal review of project management within the Agency has been conducted and a way forward identified. Processes and templates have been produced in line with government best practice to support the delivery of projects within the Agency.

NHS-sid

NHS-sid remains the sole official NHS supplier information database. The service is free of charge to all suppliers and NHS users. NHS PASA uses the database as the source for pre-qualification supplier information in all its tendering exercises.

At the end of March 2007, NHS-sid had:

15,612 registered suppliers

9,622 published supplier profiles

2,055 registered NHS buyers

134 NHS organisations that have used NHS-sid in OJEU notices

287 trust buyers who have used NHS-sid in OJEU notices

90 current active OJEU notices mentioning NHS-sid.

Remuneration report

Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services.
- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Duncan Eaton was appointed on a four year contract commencing on 1 March 2002 and this was extended with his last day being 30 June 2006.

Further information about the work of the Civil Service Commissioners can be found at: www.civilservicecommissioners.gov.uk



Salary and pension entitlements

Table a) provides details of the remuneration and pension interests of the Management Executive of the Agency.

a) Remuneration

Management Executive	2006-07		2005-06	
	Salary	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Mr Duncan Eaton ¹ , Chief Executive	80-85	6	110-115	10
Mr Christopher Uden, Director	115-120	0	105-110	0
Mr John Cooper, Director	85-90	0	80-85	0
Mr Andrew Rudd, Director	75-80	18	70-75	22
Mr Marcus Brindle, Director	80-85	0	80-85	0
Mr Neil Argyle ² , Director	45-50	11	70-75	20
Ms Helen MacCarthy, Director	65-70	23	60-65	15
Mr Clem Brohier, Director of Finance	65-70	0	60-65	0
Ms Alyson Gerner ³ , Director	55-60	0	65-70	4
Mr John Warrington, Director	70-75	19	65-70	17
Mr Chris Theaker, Director	70-75	0	65-70	0

¹ Mr Duncan Eaton left the agency on 30 June 2006. Included in the figure is £54,494.76 being a lump sum on termination of his contract | ² Mr Neil Argyle left the agency on 31 October 2006 | ³ Ms Alyson Gerner left the agency on 1 January 2007

Salary

'Salary' includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Mr Duncan Eaton, Mr Andrew Rudd, Mr Neil Argyle, Ms Alyson Gerner, Ms Helen MacCarthy and Mr John Warrington had the private use of allocated cars in the circumstances permitted by the Civil Service Management Code.

Remuneration report

b) Management Executive salary and pension entitlements

Name	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/3/06 and related lump sum	CETV at 31/3/06	CETV at 31/3/07	Real increase in CETV after adjustments for inflation and changes in market investment factors
	£000's	£000's	£000's	£000's	£000's
Mr Duncan Eaton ¹ , Chief Executive	0-2.5 plus 0-2.5 lump sum	50-55 plus 160-165 lump sum	1,339	1,263	-13
Mr Christopher Uden, Director	0-2.5 plus 2.5-5 lump sum	50-55 plus 160-165 lump sum	1,218	1,299	22
Mr John Cooper, Director	0-2.5 plus 0-2.5 lump sum	35-40 plus 105-110 lump sum	673	701	6
Mr Andrew Rudd, Director	0-2.5 plus 0-2.5 lump sum	20-25 plus 60-65 lump sum	314	327	7
Mr Marcus Brindle, Director	0-2.5 plus 0-2.5 lump sum	35-40 plus 105-110 lump sum	634	660	5
Mr Neil Argyle ² , Director	0-2.5 plus 0-2.5 lump sum	25-30 plus 85-90 lump sum	632	664	8
Ms Helen MacCarthy, Director	0-2.5 plus 0-2.5 lump sum	10-15 plus 40-45 lump sum	175	179	4
Mr Clem Brohier, Director of Finance	0-2.5 plus 0-2.5 lump sum	0-5 plus 0-2.5 lump sum	31	46	12
Ms Alyson Gerner ³ , Director	0-2.5 plus 2.5-5 lump sum	15-20 plus 55-60 lump sum	249	265	12
Mr John Warrington, Director	0-2.5 plus 0-2.5 lump sum	15-20 plus 55-60 lump sum	300	313	9
Mr Chris Theaker, Director	0-2.5 plus 0-2.5 lump sum	20-25 plus 65-70 lump sum	323	337	10

¹ Mr Duncan Eaton left the agency on 30th June 2006 | ² Mr Neil Argyle left the agency on 31st October 2006

³ Ms Alyson Gerner left the agency on 1st January 2007



Pension

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the CSP arrangements can be found at the website

www.civilservice-pensions.gov.uk

Remuneration report

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's 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 benefits accrued in their 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 from 2003/4 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. 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. CETVs 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 does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



John Cooper
Chief Operating Officer
22 June 2007



Annual Accounts 2006/7

Contents

Statement on Internal Control	34
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	38
Operating Cost Statements for the Year Ended 31 March 2007	40
Balance Sheet as at 31 March 2007	41
Cash Flow Statement for the Year Ended 31 March 2007	42
Notes to the Financial Statements for the Year Ended 31 March 2007	43

Statement on Internal Control



Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Government Accounting'.

The purpose of the system on internal control

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

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

The system of internal control has been in place in the Agency for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Accountability arrangements in existence during the year include:

- The Commercial Directorate, a body formed within the Department of Health, which acts as 'senior departmental sponsor' providing independent review of the Agency's performance
- The Arm's Length Bodies Business Support Unit, a permanent resource set up to help The Department of Health's arm's length bodies deliver high quality, value for money services aligned closely to Minister's health and social care priorities
- continuous financial information provision to the Department of Health.

The risk and control framework

One member of the Management Executive (ME) is given overall responsibility for risk management and this responsibility is rotated on a two year basis. The responsible Director chairs the Risk Management Group (RMG), comprising staff representing all aspects of the Agency. The RMG provides a policy and terms of reference by which risk will be managed and reported and it cascades risk management culture to all staff. Strategic risks relate to the strategic planning period of three to five years and by their nature could fundamentally change the way in which the Agency exists and operates. Corporate risks are aligned to the Agency's aims and objectives stated in the Business Plan and the issues affecting their achievement. Functional risks relate to the operations of the Agency. These risks are monitored and controlled using registers, which are reviewed and updated quarterly and reported by exception to the ME.



Evaluation of risks is carried out using a standard methodology, whereby a range of financial or impact values are defined and applied to each identified risk. In early 2006/07 the ME made an assessment of the strategic risks related to the Corporate Plan and the next five years. The Strategic Risk Register was thus included in the regular reporting for the first time this year. A risk management workshop was held with participants from a representative cross section of the Agency to identify risks and mitigating actions against the corporate objectives detailed in the Agency's Business Plan. From this workshop a Corporate Risk Register was compiled. Detailed functional risk registers were compiled in relation to team and Directorate objectives. Every two months the RMG met, assessed the rating of risks and made appropriate classification into functional, corporate or strategic risk reports. The ME reviewed high level risk reports at its monthly meetings. The '4Risk' software system was implemented to record risks, monitor mitigating actions and escalate, de-escalate or delete risks. The Audit Committee received regular updates on progress and effectiveness of the risk management system.

During 2006/7:

- The procurement operation which previously supported the NHS Logistics Authority transferred out to the NHS Supply Chain
- Towards the end of the financial year, the management of the Agency requested the internal auditors to undertake a post project review of the transfer. The resulting report provided substantial assurance that the risks material to the achievement of the objectives in this area had been adequately managed and controlled.

- Following the Department of Health review of the Commercial Directorate we embarked on an initiative to merge the Commercial Directorate with the Agency with effect from the financial year 2007/08. A number of project work-streams were set up to ensure that due consideration was given to the transition process. These covered the areas of:

- communications and business changes
- DH governance and finance
- HR/IT/estates
- organisation design
- efficiency opportunities
- new bodies coming in

These work streams were co-ordinated under three project areas:

- cementing the remit
- formalising the interim organisation
- driving the transformation

A DH steering group was put in place to set the direction of the project and it put in place a steering group and programme board to ensure progress, consistency and achievement of milestones. These groups included representatives from the Department of Health, Commercial Directorate and the Agency.

Statement on Internal Control

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the ME, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency has established processes which include the following:

- ME which meets monthly to consider plans for the strategic direction of the Agency
- periodic internal control reports from the Audit Committee, which comprises independent officers
- Bi-monthly RMG update reports to the ME
- monthly production and review by ME of key performance indicators through the balanced scorecard
- comprehensive budgeting and forecasting systems
- review, by ME, of monthly and annual financial reports
- IT security accreditation (BS7799)
- European Foundation for Quality Management (EFQM)
- Environmental Management System (EMS), (ISO 14001)
- Investors in People Accreditation
- Quality Management System BSEN ISO 9001/2000 accreditation.

The Agency benefits from an internal audit service supplied by an external contractor, which operates to agreed internal audit standards. The service reports on the adequacy and effectiveness of the Agency's system of internal control.

The Audit Committee agrees the annual audit plan and monitors the implementation of recommendations. The internal auditors have examined the systems of internal control and are of the opinion that these are effective.

Significant internal control problems

There are no significant internal control problems on which to report.



John Cooper
Chief Operating Officer
22 June 2007

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the NHS Purchasing and Supply Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency, the Chief Operating Officer and auditor

The Agency and Chief Operating Officer, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report which comprises the Chief Operating Officer's Forward, the Directors' Report, the Management Commentary, Performance Against Objectives, and the Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency 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 HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and,
- the information given within the Annual Report', which comprises the Chief Operating Officer's Forward, the Directors' Report, the Management Commentary, Performance Against Objectives, and the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

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

12 July 2007

Operating Cost Statement for the Year Ended 31 March 2007

	Notes	2006/7 £000's	Restated 2005/6 £000's
Administration costs			
Staff Costs	2	15,823	17,873
Other administration costs	3	12,696	10,945
Gross administration costs		<u>28,519</u>	<u>28,818</u>
Operating income	4	(1,821)	(2,039)
Net operating cost		<u>26,698</u>	<u>26,779</u>

All of the above expenditure relates to continuing operations.

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

	Notes	2006/7 £000's	2005/6 £000's
Net gain/(loss) on revaluation of tangible fixed assets			
	15	<u>34</u>	<u>22</u>

There are no other recognised gains or losses for the period.

The notes on pages 43 to 56 form part of these financial statements.

Balance Sheet

as at 31 March 2007

	Notes	As at 31 March 2007		As at 31 March 2006	
		£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	7		2,232		2,181
Intangible assets	8		526		449
Current assets					
Debtors: amounts falling due within one year	10	2,053		1,514	
Cash at bank and in hand	11	42		16	
		<u>2,095</u>		<u>1,530</u>	
Creditors: Amounts falling due within one year	12	<u>(5,017)</u>		<u>(3,496)</u>	
Net current (liabilities)			<u>(2,922)</u>		<u>(1,966)</u>
			(164)		664
Total assets less current liabilities					
Provision for liabilities and charges	14		<u>(1,169)</u>		<u>(2,240)</u>
			<u>(1,333)</u>		<u>(1,576)</u>
Taxpayers equity					
Revaluation reserve	15		531		497
General Fund	16		<u>(1,864)</u>		<u>(2,073)</u>
			<u>(1,333)</u>		<u>(1,576)</u>

The notes on pages 43 to 56 form part of these financial statements.



John Cooper
Accounting Officer
22 June 2007

Cash Flow Statement for the Year Ended 31 March 2007

	Notes	2006/7 £000's	Restated 2005/6 £000's
Reconciliation of operating to operating cash flows			
Net operating cost		(26,698)	(26,779)
Pre-merger CEP costs paid by MHRA		-	970
Adjustment for non-cash transactions:			
Depreciation	3	373	282
Impairment of fixed assets	3	41	89
Fixed Asset write down	7	10	-
Other notional costs	3	-	57
Cost of capital charge	3	(34)	(29)
Auditor's remuneration and expenses	3	52	52
Provisions	14	(1,071)	616
Profit from sale of fixed assets		-	(7)
Adjustment for movements in working capital other than cash	9	15,229	15,947
Net cash (outflow) from operating activities		(12,098)	(8,802)
Capital expenditure and financial investment:			
Expenditure to acquire fixed assets	7/8	(518)	(796)
Proceeds from sale of fixed assets		-	226
Financing		12,642	9,349
Financing from Department of Health			
Increase/Decrease in cash in the period	11	26	(23)

The notes on pages 43 to 56 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2007

1. Accounting policies

The financial statements have been prepared in accordance with the Governance Reporting Manual and directions by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the financial statements.

a) Accounting convention

The financial statements have been prepared under the historical cost convention as modified to account for the revaluation of fixed assets at their value to the business, by reference to their current cost.

b) Government funding

The Agency is funded from the Department of Health Request for Resources 2 (RfR2). Department of Health funding is shown as a credit to the Agency's General Fund.

c) VAT

The Agency receives funding from the Department of Health to meet expenditure incurred, inclusive of VAT. However, in order to comply with the Government Financial Reporting Manual and normal commercial practice, where VAT is recoverable by the Agency expenditure shown in the operating cost statement is net of VAT.

The Agency is registered for VAT as part of the Department of Health, which is responsible for recovering VAT from HM Revenue and Customs on behalf of the Agency. The reclaimable VAT is offset against funding received from the Department during the year.

d) Fixed assets

i) Capitalisation

All fixed assets which are capable of being used for more than one year and have a cost equal to or greater than £500 are capitalised.

ii) Valuation

Land and Buildings were valued on the 31 March 2005 on the basis of existing use value by an independent surveyor, Drivers Jonas, Chartered Surveyors. The valuation was carried out in accordance with the appraisal and valuation standards issued by the Royal Institution of Chartered Surveyors.

Equipment assets (including networked computer equipment) and intangibles are valued at net current replacement cost using appropriate indices for each classification of asset.

iii) Depreciation

Land is not depreciated.

Notes to the Financial Statements for the Year Ended 31 March 2007

Depreciation is provided at rates calculated to write off the valuation of buildings and other tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Buildings	50 to 60 years
Fixture and fittings	10 years
Computer hardware	3 to 5 years
Other equipment	5 years

Depreciation is also provided on computer software, classified as intangible fixed assets. The estimated useful life is five years. Depreciation is charged quarterly in arrears.

e) Operating income and expenditure

The operating cost statement records administration costs and operating income. The Agency has no programme costs. Operating income is income which relates directly to the operating activities of the Agency.

f) Capital charge

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the Government's standard rate of 2.2 per cent in real terms on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General.

g) Operating leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

h) Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded multi employer defined benefit scheme therefore the Agency is unable to identify its share of the underlying assets and liabilities. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the separate scheme statement of the PCSPS.

Total payment to the scheme in the year was £2,400.

There were eight employees taking part in the 'money purchase' stakeholder arrangement (partnership pension account) in 2006/7

Notes to the Financial Statements for the Year Ended 31 March 2007

The Government Actuary reviews employer contribution rates every three years following a scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and they reflect past experience of the scheme.

The rates for 2006/07 are:

Salary band			%
£0	-	£18,500	17.1
£18,501	-	£38,000	19.5
£38,001	-	£65,000	23.2
£65,001	+		25.5

i) Losses and special payments

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

j) Provisions for liabilities and charges

Provisions are made for future charges where these charges are not incurred by the Agency on a continuing basis, are material to the accounts and are binding under law or contract.

k) Energy Trading System

The Agency administers a system to record and monitor energy usage by NHS Trusts and inform the negotiation with suppliers for contracts for the supply of power. The costs of administering the system are recovered from the energy suppliers. The Agency only claims income from energy suppliers sufficient to recover the underlying costs of administering the system.

Notes to the Financial Statements for the Year Ended 31 March 2007

2.

a) Staff costs

	2006/7 £000's	Restated 2005/6 £000's
Wages and salaries	11,324	11,352
Termination payments	(279)	1,201
Social security costs	1,022	1,056
Pension costs	2,400	2,332
Sub Total	14,467	15,941
Pre-merger CEP staff costs	-	157
Inward secondments, agency and contract staff	1,356	1,775
Total	15,823	17,873
Less recoveries from outward secondments	(455)	(644)
Total net costs	15,368	17,229

The recoveries from outward secondments are included in the operating income in the operating cost statement.

b) Staff numbers

The average number of whole time equivalent employees (including the Management Executive) during the year was as follows:

	2006/7 wte	Restated 2005/6 wte
Permanent employees	294	316
Inward secondments	2	1
Agency and contract staff	25	33
Operations	321	350

Of the 294 average number of permanent employees in 2006/07, 81 were support staff.

Notes to the Financial Statements for the Year Ended 31 March 2007

3. Other administration costs

	2006/7 £000's	Restated 2005/6 £000's
Operating lease payments:		
Land and buildings	331	331
Other leases	243	89
Non-cash items:		
Depreciation and amortisation	373	282
Impairment of fixed assets	41	89
Interest on capital employed	(34)	(29)
Auditor's remuneration and expenses	52	52
Other notional costs	-	57
Other expenditure		
Other staff related including training	1,585	1,706
Estate recurrent costs	1,511	1,010
CEP costs	3,545	2,975
Professional fees	3,269	2,250
Energy Trading Costs	186	539
Other	1,594	1,594
	<u>12,696</u>	<u>10,945</u>

The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work.

Notes to the Financial Statements for the Year Ended 31 March 2007

4. Operating Income

	2006/7 £000's	Restated 2005/6 £000's
Appropriated in aid:		
Cost recovery from external organisations	(1,631)	(1,450)
Cost recovery from employees	(4)	(4)
Energy trading contributions	(186)	(539)
Pre-merger CEP operating income	-	(46)
Total	<u>(1,821)</u>	<u>(2,039)</u>

5. Interest on capital employed

	2006/7 £000's	Restated 2005/6 £000's
Interest on capital employed	(34)	(29)

6. Supplier discounts

The Agency invoices and collects retrospective discounts from certain contracted suppliers as an agent to the Department of Health. In the year ended 31 March 2007 these collections totalled £456 excluding VAT (2005-2006: £2,419), all of which were passed to the Department of Health and are therefore not reflected in these accounts.

Notes to the Financial Statements for the Year Ended 31 March 2007

7. Tangible fixed assets

	Land	Buildings	Office Equipment	IT Equipment	Assets under Construction	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Costs or valuation						
At 1 April 2006	330	1015	430	1,314	89	3,178
Additions	-	-	66	287	-	353
Disposals	-	-	-	(16)	-	(16)
Transfers	-	-	-	-	(89)	(89)
Surplus/(deficit) on indexation	7	22	6	(55)	-	(20)
At 31 March 2007	337	1,037	502	1,530	-	3,406
Depreciation:						
At 1 April 2006	-	20	153	824	-	997
Provided during the year	-	20	45	155	-	220
Disposals	-	-	-	(6)	-	(6)
Transfers	-	-	-	-	-	-
(Surplus)/deficit on indexation	-	1	-	(38)	-	(37)
At 31 March 2007	-	41	198	935	-	1,174
NBV At 31 March 2007	337	996	304	595	-	2,232
NBV At 1 April 2006	330	995	277	490	89	2,181

Land and buildings are all freehold. All assets are owned and in current use as at 31 March 2007. Land and Buildings were valued on 31 March 2005 on the basis of existing use value by an independent surveyor, Drivers Jonas, Chartered Surveyors. The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors.

Notes to the Financial Statements for the Year Ended 31 March 2007

8. Intangible fixed assets

	£000's
Cost or Valuation	
At 1 April 2006	608
Additions	165
Disposals	-
Transfers	89
Surplus/(deficit) on indexation	(34)
At 31 March 2007	<u>828</u>
Amortisation	
At 1 April 2006	159
Provided during the year	153
Disposals	-
Transfers	-
(Surplus)/deficit on indexation	(10)
At 31 March 2007	<u>302</u>
NBV At 31 March 2007	<u>526</u>
NBV At 1 April 2006	<u>449</u>

Notes to the Financial Statements for the Year Ended 31 March 2007

9. Movements in working capital other than cash

	2006/7 £000's	2005/6 £000's
Increase in debtors	(539)	(506)
Increase in creditors	1,521	1,635
Non-cash financing from Department of Health	14,247	14,818
Net cash inflow	<u>15,229</u>	<u>15,947</u>

10. Debtors: amounts falling due within one year

	31 March 2007 £000's	31 March 2006 £000's
Trade debtors	573	245
Department of Health debtors	190	290
Provision for doubtful debts	(9)	-
Prepayments and accrued income	1,299	979
	<u>2,053</u>	<u>1,514</u>

11. Cash at bank and in hand

	2006/7 £000's	2005/6 £000's
Balance at 1 April	16	39
Net cash inflow	26	(23)
Balance at 31 March	<u>42</u>	<u>16</u>

12. Creditors: amounts falling due within one year

	31 March 2007 £000's	31 March 2006 £000's
NHS Trade creditors	626	421
Other Trade creditors	2,216	451
Staff creditors	32	31
Deferred Income	-	64
Accruals	2,143	2,529
	<u>5,017</u>	<u>3,496</u>

Notes to the Financial Statements for the Year Ended 31 March 2007

13. Intra-government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
Balances with other central government bodies	197	-	745	-
Balances with local authorities	-	-	58	-
Balances with NHS Trusts	31	-	626	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	1,825	-	3,588	-
At 31 March 2007	2,053	-	5,017	-
Balances with other central government bodies	472	-	263	-
Balances with local authorities	150	-	-	-
Balances with NHS Trusts	83	-	997	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	809	-	2,236	-
At 31 March 2006	1,514	-	3,496	-

Notes to the Financial Statements for the Year Ended 31 March 2007

14. Provisions

	Restructuring £000's	Early Retirements £000's	Total £000's
At 1 April 2006	2,103	137	2,240
Provided in the year	95	-	95
Paid in the year	(609)	(120)	(729)
Released in the year	(437)	-	(437)
At 31 March 2007	<u>1,152</u>	<u>17</u>	<u>1,169</u>
Expected timing of cash flows:			
Less than one year	512	1	513
One to five years	470	-	470
Over five years	170	16	186
	<u>1,152</u>	<u>17</u>	<u>1,169</u>

Early Retirements and Redundancy

The provision in the year has arisen as a consequence of the organisational restructure and includes the costs for specific cases of early retirement and redundancy. Redundancy includes the amounts due under the Civil Service Compensation Scheme (CSCS). The Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pensions Scheme (PCSPS) benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding on the Agency by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms.

Notes to the Financial Statements for the Year Ended 31 March 2007

15. Revaluation reserve

	2006/7 £000's	2005/6 £000's
Balance at 1 April	497	475
Indexation/Revaluation	34	22
Balance carried forward at 31 March	531	497

16.

a) Reconciliation of operating cost to changes in the General Fund

	2006/7 £000's	Restated 2005/6 £000's
Net operating cost for the year	(26,698)	(26,779)
Pre-merger CEP costs paid by MHRA		970
	(26,698)	(25,809)
Net funding from the Department of Health:	26,889	24,168
Notional charges		
Interest on capital employed	(34)	(29)
Auditor's remuneration	52	52
Other notional costs	-	57
Net increase/(decrease) in General Fund	209	(1,561)

b) Movements in the General Fund

	2006/7 £000's	2005/6 £000's
General Fund at 1 April 2006	(2,073)	(512)
Net Increase/(decrease) in year	209	(1,561)
General Fund at 31 March 2007	(1,864)	(2,073)

Notes to the Financial Statements for the Year Ended 31 March 2007

17. Commitments under operating leases

The Agency is committed to make the following operating lease payments during the next financial year:

	2006/7 £000's	2005/06 £000's
Land and Buildings		
Leases which expire after five years	-	-
Leases which expire within five years	331	331
Other Leases		
Leases which expire within one year	61	61
Leases which expire within two to five years	182	182

18. Related party transactions

The NHS Purchasing and Supply Agency is an executive agency of the Department of Health. The Department of Health is regarded as a related party with which the Agency has had various material transactions during the year.

The Agency has had numerous transactions with the NHS Logistics Authority and Supply Chain (which became the NHS Supply Chain on 11 October 2006) which total £181,859 purchases and £64,821 sales in the year.

During the year no member of the Management Executive or other key management staff or parties related to them have undertaken any material transactions with the Agency.

19. Losses and special payments

During 2006/07, there were 19 cases of losses and special payments totalling £4,502 approved by the Chief Executive in accordance with the Agency's framework document.

20. Capital Commitments

There were no capital commitments at 31 March 2007.

21. Contingent Liabilities

There is one on-going claim against the Agency which is expected to be resolved during the financial year 2007/08.



Notes to the Financial Statements for the Year Ended 31 March 2007

22. Post balance sheet event

There are no material post balance sheet events. These accounts were authorised for issue on 24 July 2007.

23. Financial Instruments

'FRS 13 – Derivatives and Other Financial Instruments' requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities:

Interest rate risk – this is not significant as the Agency has no borrowings or interest bearing deposits;

Liquidity risk – the Agency is not exposed to significant liquidity risk, as it has no borrowing facilities, and cash requirements are met by the Department of Health funding;

Currency risk – this is not significant, as the Agency had no material imports or exports, nor does it hold foreign currency assets or liabilities;

Credit risk – the Agency has no long term debt and is not exposed to credit risk.



Notes

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5594575 07/07

Printed on Paper containing 75% recycled fibre content minimum.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Email bookorders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

Email bookshop@parliament.uk

Internet bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-294560-7



9 780102 945607