



Annual Report and Accounts **2005/6**



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.

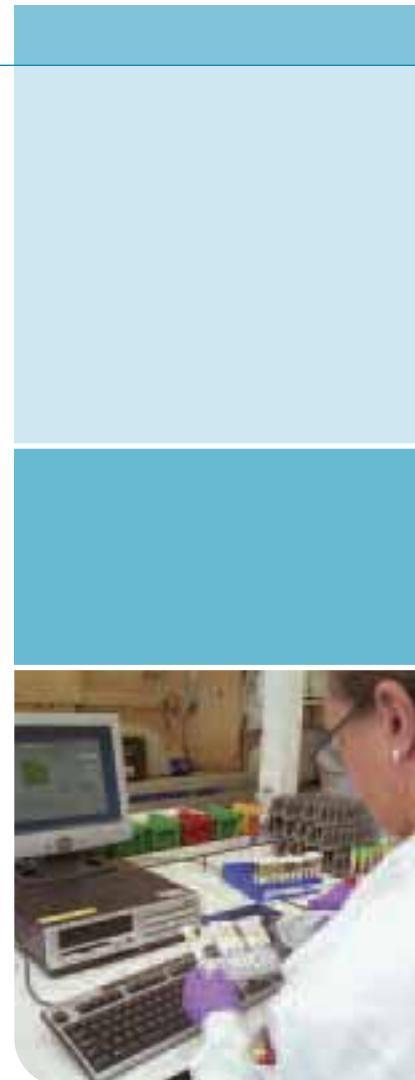
The Agency's role is to develop purchasing and supply policy for the NHS and to lead, and implement, fundamental change in the management of purchasing and supply across the NHS in England.

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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 1 November 2006



Chief Executive's statement

This year, as in every year since I became Chief Executive of the Agency, change is a key theme of my message.

In the UK public sector over £120 billion is spent on goods and services annually. It is therefore not surprising that the government believes public sector procurement has a major role to play in both modernising public services and stimulating the economy. Used intelligently, procurement can also be used as an important lever for driving government policies such as sustainability and innovation.

The NHS represents around £17 billion of this £120 billion and so Health Ministers are keen to ensure the NHS plays its part and reaps the benefit from a robust and intelligent approach to procurement.

We have been successful over the years in achieving the targets set by, and for, us. This year has been no exception and you will see that later in this report. This past year has also seen a cultural shift in the way the Agency works, and delivers that work, with the organisational changes started last year now becoming established.

Like many other organisations we have been finalising our Corporate and Business plans for the coming three years and next year respectively. Our vision is to ensure that the lessons of the Supply Chain Excellence Programme (SCEP) are firmly embedded into the fabric of NHS procurement. Also that, in the coming years, NHS procurement function will play an 'intelligent' role in ensuring we gain maximum value and quality from the extra investment that has gone into health spending. We want to ensure that every element of NHS non-pay spend is strategically managed – whether at a national, regional or local level – in order to assist the NHS deliver better and more cost effective care to patients.

We have been working to identify the drivers that will underpin the work that my Agency will undertake over the next few years. Major policy drivers include:

- efficiency in public services – prompted by Sir Peter Gershon's Efficiency Review
- public procurement as a lever for stimulating innovation in the economy – prompted by the Department of Trade and Industry's innovation report and the Healthcare Industries Task Force (HITF)
- public procurement as a lever for delivering sustainability – prompted by the government's Sustainable Development Strategy and Sustainable Procurement Task Force
- public procurement as a lever for stimulating small and medium-sized enterprises including black and minority ethnic enterprises women-owned and disabled-owned businesses and social enterprises.

In addition to these policy drivers, the NHS is undergoing radical reform to provide:

- more choice and a much stronger voice for patients
- more diverse providers with more freedom to innovate and improve services
- money following the patients, rewarding the best and most efficient, giving others the incentive to improve
- system management and decision-making to support quality, safety, fairness, equity and value for money.

All of these policy initiatives and changes represent a considerable challenge and opportunity for the Agency and wider NHS procurement to contribute to government's delivery and reform agenda.

One of the key developments for me over the years is the increasing number of stakeholders with whom we now engage about procurement. We cannot work in isolation and our communication links and stakeholder groups are critical to how we will, together, achieve the best possible outcomes for the NHS. Relationships built in the past and developed over time have ensured successes are shared across the NHS. We will continue to develop these and look to engage new and different stakeholders as our future direction dictates.

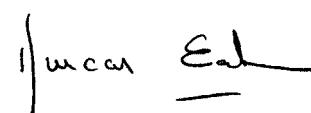
An exciting new development for the Agency this year has been the transfer of the Device Evaluation Service from the Medicines and Healthcare products Regulatory Agency (MHRA) to NHS PASA to become the Centre for Evidence-based Purchasing. For the first time we have a unit that will help inform procurement decisions, and encourage the uptake of useful, safe and innovative products and procedures used in health and social care.

Looking forward, we like other organisations will be expected to do more for less and there will be the expectation that we will absorb any inflation costs each year. We are anticipating the maturity of NHS collaborative procurement organisations and this will lead to the transfer of some of the Agency's current activity to those organisations.

The potential outsourcing of the consumables supply chain will lead to the transfer of some staff and responsibilities. There is also increased potential for collaboration between government departments leading to a shifting of responsibilities to those best placed to deliver the greatest efficiencies.

Over the last two years the Agency has been working alongside the Department of Health's Commercial Directorate to deliver the Supply Chain Excellence Programme. This has revitalised the NHS supply chain and demonstrated how a focused procurement strategy can be a catalyst for change and innovation. We now have the foundations in place to deliver even greater efficiencies for the NHS. With a re-invigorated national procurement function and a new structure of collaborative procurement hubs, the NHS is in a position to deliver even greater efficiencies and take its place at the forefront of world-class public procurement.

It is a time of great change and great opportunity for NHS procurement. There is now the additional recognition that we have the ability to bring about tangible benefits to the NHS whilst contributing to improving patient care.



Duncan Eaton
Chief Executive





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.

The Agency is managed by a team of officers led by Chief Executive, Duncan Eaton, the Agency's Accounting Officer. All are Civil Servants, employed on full terms and conditions. Details are given in note 2(c) to the Accounts. 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.

MANAGEMENT EXECUTIVE

During 2005/6 the senior management team of the NHS Purchasing and Supply Agency comprised:

Duncan Eaton	Chief Executive
Neil Argyle	Director
Marcus Brindle	Director
Clem Brohier	Director of Finance
John Cooper	Director
Alyson Gerner	Director
Eric Jackson	Director (Retired 5 April 2005)
Helen MacCarthy	Director (From 15 May 2005)
Andrew Rudd	Director
Chris Theaker	Director
Chris Uden	Director
John Warrington	Director

AUDIT COMMITTEE

The Agency's Audit Committee advises the Chief Executive 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.

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. The Chief Executive is appointed by the Chief Executive of the DH and NHS for an (extendable) period of three years under normal Civil Service Management Code terms. 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 2006 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 2005/6 was £22.2 million for revenue expenditure and £0.7 million for capital expenditure. On 1 September 2005 the Device Evaluation Service transferred to the Agency from the MHRA with a budget of £4.3 million for the remainder of the year. For the purposes of these accounts, the Device Evaluation Service has been included for the full year.

Revenue expenditure incurred in 2005/6 was £28.8 million, including the transfer of the Device Evaluation Service and other funded projects, and capital expenditure was £0.8 million which included an authorised transfer from the revenue budget to the capital budget.

The resource budget for 2006/7 has been notified to be £29.2 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 2005/6 are described more fully later in the annual report. Highlights have been:

- savings of £163 million were achieved on Wave 1 and the first part of Wave 2 of the Department of Health's, Supply Chain Excellence Programme, National Contract Procurement Project. This was against a cumulative spend of £783 million
- savings of £325 million were achieved against a contract value of £3.2 billion. This is equivalent to a 10.1% overall saving against the target of 7.5% of the value of Agency contracts
- promoting and co-ordinating the establishment of collaborative procurement hubs and confederations (groups of NHS trusts co-operating to obtain better value)

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 350.

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 briefings. 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 2005 TO MARCH 2006

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.

44 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, 63.6% were women

and 6.8% from ethnic minorities (for applicants, 50.6% 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.

Results for the year were:

	2005/6	2004/5
Percentage of suppliers' invoices paid within 30 days	94%	94%
Average payment time, in days	13	12
Value of invoices paid, in £ millions	9.5	6.8

During the year late payment interest charges totalling £186 were paid under the Late Payment of Commercial Debts (Interest) Act 1998.

POLITICAL AND CHARITABLE GIFTS

No political or charitable gifts were made during the year.



Performance against objectives 2005/6

Agency achievements against 2005/6 business targets are shown below:

Target 1: Arms Length Bodies efficiency review: embed the NHS PASA reorganisation

- completion of the phased recruitment to the new structure comprising 340.8 established posts
- project milestones in the design and implementation of the redesigned business processes culminating in three workshops to be held by July 2005
- completion of training programme for staff in relation to the redesigned business processes
- redesign and integration of the Device Evaluation Service (Centre for Evidence-based Purchasing) into the Agency

Target 2: Savings

- National Contract Project (NCP) in year savings – NHS PASA target £153 million. Achieved £163 million
- Non NCP contract savings – 7.5% of contract value. Cumulative savings yielded 10.1%

Target 3: Collaborative procurement

- seven collaborative procurement hubs operational by December 2005
- a further four strategic health authorities to become part of the hub roll-out programme. 5 SHAs are now formally part of this programme
- an engagement strategy has been developed to ensure that the CPH programme is on target to achieve savings of £270 million by 2007/8
- NHS trusts within the boundaries of seventeen SHAs have confederations or hubs at level 4 maturity
- Twenty seven SHAs have confederations or hubs at level 2 maturity or above

Target 4: IT development and procurement

- an integrated three year IT plan agreed at Management Executive level and implementation of IT

strategy to agreed timeframe and quality

- full implementation of new eSourcing suite including eTendering, eTender analysis and eAuction tools
- 100% of Agency tenders from 1 July 2005 transacted via an eTendering system
- 20 eAuctions undertaken during 2005/6

Target 5: Investment in people

- the target is 70% of staff with a professional qualification. Due to the major change programme during 2005/6 65% of staff have, or are working towards a relevant professional qualification
- a 5% improvement in the 2004 score against the Procurement Excellence Model was not achieved. NHS PASA is nevertheless only marginally below (- 4.2%) the latest average public sector benchmark
- 5% reduction in sickness absence from 1,911 days to 1,815 days. Sickness absence at end of March showed 1,842.5 days – this is influenced by 5 long term sickness cases which account for 38% of the total. Two individuals have retired on the basis of ill health during the year. No long term sickness cases existed as at 31 March 2006
- staff % turnover to be managed within the sector norm. 12.2% is the sector average for central government – a total of 40 staff (including 15 redundancies) left the Agency to the end of March 2006. This is equivalent to a labour turnover rate of 16.9% based on total leavers since April 2005 and average number of permanent staff. The turnover rate is 7.9% if redundancies are excluded
- required to work within the establishment of 350.8 wtes – at end of March 2006 the Agency had 316 permanent staff and a further 45.6 fixed term and agency staff
- demonstrate Improvements against 2004/05 on:
- ratio of procurement to non procurement staff
- savings per employee All staff (NCP and non-NCP)
- savings per procurement staff

Savings

	2003/04 (Note 1)	2004/05 (Note 2)	2005/06 (Note 3)
Ratio of purchasing to support staff	67:33	68:32	75:25
Savings per employee (total)	£867,953	£1,028,728	£1,239,429
Savings per employee (Purchasing staff)	£1,301,929	£1,516,867	£1,617,857

Note:

- 1) Savings 2003/04 divided by headcount as at 31 March 2004, adjusted for NSCP Wave 1
 - 2) Savings 2004/05 divided by headcount as at 31 March 2005
 - 3) Forecast savings 2005/06 divided by headcount as at 31 March 2006 adjusted for CEP staff
- In the following few pages we highlight some of the work undertaken by the Agency in the past year.



A review of 2005/6

SUPPLY CHAIN EXCELLENCE PROGRAMME (SCEP)

NHS PASA has been closely involved with the implementation of SCEP which aims to gain the best value for the money the NHS spends each year on goods and services taking account of product quality, innovation, price, patient safety and choice. This will ensure the greatest possible share of NHS funding is directed towards improving clinical capacity, and ultimately patient care. The programme is on target to deliver over £500 million in annualised savings by 2007/8. SCEP's benefits are £115 million annualised savings to date.

The National Contracts Procurement (NCP) project is focused on driving rigorous and robust sourcing of new national framework agreements, and the Commercial Directorate is working with NHS PASA and NHS Logistics to engage trusts and encourage them to use the new agreements to help them get the best savings for their budgets.

The collaborative procurement hubs (CPH) project works with trusts and supply management confederations in a phased approach to develop CPHs across the NHS so that they have the ability to provide a regional procurement focus. CPHs will help optimise all commercial spend through collaborative working across all trusts in the local health economy and ensure a strong clinical interface to deliver the right product for local health economies. It is also supporting NHS Logistics and the new national framework agreements within the NCP project to maximise the purchasing scale provided by the CPH approach.

There will be a CPH available to every trust in England by 31 March 2008. Each CPH will, in the main, be co-terminous with the new strategic health authority boundaries and will typically have a non-pay influenceable spend of £1 billion. CPHs will be established through a roll-out programme with the last group being established by 31 March 2008. By this time

it is anticipated that CPHs will have delivered cumulative savings of £270 million. The Agency will support this programme with:

- project management skills
- business case development
- opportunity assessment support.

NHS PASA will continue to support the development of CPHs to ensure they have the capabilities to drive forward the modernisation of NHS procurement. The CPH model has been tested and refined, and three pathfinder hubs are fully mobilised and to date they have achieved annualised savings of £24 million.

As part of SCEP the proposed outsourcing of NHS consumables' supply chain has been taken forward to the next stage, which involves due diligence and negotiations with the preferred bidders. If the decision is made to go ahead with outsourcing, it is likely the contract would be awarded in the third quarter of 2006.

CENTRE FOR EVIDENCE-BASED PURCHASING (CEP)

NHS PASA CEP was created on 1 September 2005 when the Device Evaluation Service transferred from the Medicines and Healthcare products Regulatory Agency. This was as a result of a recommendation made by the Healthcare Industries Task Force to forge closer links between product evaluation and purchasing.

CEP underpins purchasing decisions by providing objective evidence to support the uptake of useful, safe, innovative products and related procedures in health and social care.

The service will expand to:

- cover more products, not just medical devices
- provide the NHS and Social Services with cost benefit analysis where appropriate

- develop nationally agreed evaluation protocols
- gather evidence globally to support the use of new technologies.

The re-design process has been comprehensive and started in March 2005 with a series of workshops with stakeholders to agree the scope and types of information required.

Operationally the main changes to the service will be:

- separation of business planning and work prioritisation from commissioning and delivery of projects
- greater focus on health benefits and cost benefits
- new skills including medical writers and a health economist
- clear governance measures including input from industry
- to allow anyone to suggest a project for CEP.

AGENDA ACHIEVEMENTS

NHS-sid

NHS-sid is a supplier information database. It is the repository for all standard pre-tender documentation. Suppliers must use NHS-sid for all NHS PASA procurement exercises.

At 31 March 2006:

- 14,057 suppliers were registered – an increase of 34.41% since April 2005
- 8,279 suppliers had published their profiles – an increase of 31.5% since April 2005
- 1,690 buyers registered – an increase of 28.28% since April 2005.

eCatalogues

- implementation of new web-based pharmacy products catalogue has been achieved to replace the old pharma CD catalogue

- a new feature to the lease car catalogue has been implemented to enable suppliers to maintain their own data on-line
- arrangements are now in place with OGCbuying.solutions (OGCbs) to populate their eCatalogue with relevant NHS PASA contracts.

eTendering

At the end of March 2006, 121 procurement exercises were in progress using the Bravo system. This is the highest number compared to other UK public sector organisations using this system.

eAuctions

- NHS PASA has undertaken a total of 20 eAuctions in the financial year 2005/6.
- The total baseline value of contracts subject to eAuction was £351,925,789.
- Tender savings against baselines was £13,270,085.
- Additional eAuction savings against tendered prices was £36,498,669.
- The total cost of running these 20 eAuctions was £123,622.



The tender and eAuctions savings figures are based on the lowest bid prices. Subsequent award decisions may alter these figures.

In particular it is worth noting the agency staff eAuctions (Wave 2 SCEP). OGCbs is reporting the NHS PASA agency

staff eAuction was one of the largest in any public sector organisation worldwide. The event comprised eight separate auctions run over three days. Over the three year period of the contract the total value is estimated at £1.26 billion. Statistics from the eAuction event show that 176 suppliers participated and that 55,000 bids were placed over the three days.

PHARMACY SUPPLY CHAIN PROJECT

The national pharmaceutical supply chain project was established in 2001 and has involved the Agency, NHS Logistics, NHS trust pharmacists and pharmaceutical wholesalers to improve the pharmaceutical supply chain performance.

Led by the Agency there has been particular focus on the interface between trusts and wholesalers and on a wide range of tactical, operational and policy changes that can be made by various parties to the supply chain. The project has been progressed in phases. The first phase, in 2002, involved information gathering from key stakeholders, an assessment of issues and the generation of options for consideration. In 2003/4 this led to the establishment of work streams to focus on key aspects and develop recommendations. Those recommendations were then piloted in three trusts and completed in August 2005.

As part of the roll-out, presentations have been made to groups of key stakeholders, culminating with a national NHS seminar in December 2005. Delegates at this event were representatives from collaborative procurement hubs and supply management confederations and trust chief pharmacists.

This project has been a major strategic initiative and the outputs from it have the potential to bring about significant improvement in the pharmaceutical supply chain. The Agency has estimated that consistent enhancements to hospital pharmacy IT systems, linked to the supply chain project and the SCEP programme, would have the

potential to generate efficiency savings of between £29 million and £34 million.

PHARMACY MESSAGING SERVICE

The Agency has supported the development of the NHS Pharmaceutical Messaging Service, a pilot scheme which aims to streamline the supply of medicines to England's hospitals. The project pinpointed efficiencies and is delivering savings through the introduction of electronic ordering, information and invoicing system for hospital pharmacies. Hospital pharmacies in England place some 160,000 orders a month for medicines, from everyday aspirin to highly specialised drugs such as TB-fighter, Pyrazinamide. As most hospitals have 200 to 300 different pharmaceutical suppliers, many hospital pharmacy departments have devoted a lot of time and paper to faxing individual orders, checking order status and handling invoices.

The new service uses e-technology which allows hospital and supplier computer systems to communicate with suppliers. By using the service, hospitals can send their orders electronically and suppliers can receive and read the order, regardless of the message format they themselves operate. Any pharmaceutical company can now receive an electronic order from any pharmacy system and in turn issue electronic invoices to the trust. Confirmation messages are sent so pharmacists can be confident that their electronic orders have arrived successfully and that the goods will be sent by the supplier in a timely manner.

The system currently deals with over 150 suppliers. For some trusts this is more than 60% of their ordering workload.

PHARMEX

A national system, first instituted as part of the SCEP programme and subsequently developed by the Agency, is now capable of extracting ordering data from the majority of NHS trusts. Each month 80% of NHS trust

pharmacy departments in England are now contributing Pharmex data and this number is growing each month.

Pharmex holds data on 13 million line order entries for over 10,000 products. NHS PASA is matching these products with a single standard database. This is enabling us to develop and implement a procurement strategy for pharmaceuticals across the NHS in England. The information is used to supply accurate volumes to suppliers for tendering and then, following the award of contracts, the actual performance is monitored. Reports of expected benefits and actual compliance are made available to trusts. The availability of the information enables NHS PASA to manage the delivery of benefit from the process of products reaching patent expiry at the earliest opportunity.

Pharmex is also providing accurate information to meet requests from many stakeholders including trusts, collaborative procurement hubs, suppliers, Department of Health and other government agencies.

EMERGENCY PLANNING – VACCINE PROCUREMENT

The pharmacy team has embarked on major work to support the Department of Health's flu pandemic plans for vaccine supply and antivirals, including the procurement of oseltamivir (Tamiflu) and an H5N1 influenza vaccine.

HOME CARE

There are many developments happening in the enteral feed market. The Agency is working closely with patients and clinicians to ensure that patients' needs continue to be met and clinical standards maintained. We re-established the National Enteral Feed Group in 2005 and invited several new members to ensure as wide a stakeholder consultation as possible. The national group now consists of:

- experienced dieticians from the acute and community areas covering adults and paediatric remits

- prescribing specialists
- procurement specialists
- nutrition nurses
- patient group representatives
- industry representatives.

The procurement guide for those involved in purchasing enteral feeds has undergone a major revision and is available on our website.

ASSISTIVE TECHNOLOGY

The team has continued to support the NHS post-Modernising Hearing Aid Services through ongoing development of the national contract for digital hearing aids to ensure the NHS has access to high levels of technology via new products offered within the contract. We have also worked with NHS Logistics and key hearing aid suppliers to develop the range of products available to the NHS.

This year we have delivered savings across the Assistive Technology cluster of categories for over £13.5 million. By realigning the existing national framework agreement for the supply of wheelchairs and associated products we now ensure it reflects the needs of the changing NHS landscape and the development of regional procurement centres.

Finally we have developed a sourcing strategy to support Health Minister's announcements of £80 million for telecare solutions and started the necessary sourcing activity (with contract award due July 2006).

AUDIOLOGY TEAM AWARD

In the past hearing aids that were affordable by the NHS were effective but often bulky and technologically behind the times. The new generation of digital hearing aids are much more advanced in terms of performance and size. However, with prices around £450 they were rarely available to NHS patients. NHS PASA's national contract has secured high specification digital hearing aids for NHS

patients at less than £60. This 86% reduction in price saves the NHS £45.4 million a year and means more than 260,000 people will be fitted with new devices every year.

The project involved a high level of stakeholder consultation, working with the Department of Health, the Royal National Institute for Deaf People and the Medical Research Council's Institute of Hearing Research. The contract continues to support the Department of Health funded Modernising of Hearing Aid Services (MHAS) programme which aims to modernise hearing services within the NHS across England. MHAS is about improving patient services, as well as making the latest hearing aid technology available on the NHS. For their work on this project, the NHS PASA audiology team received the team award for Public Procurement Excellence at the public procurement awards ceremony in June 2005.

ENERGY

A new monthly energy briefing is now available via the intranet, providing a market summary for each of the key commodity markets, together with an outlook for prices. We have also introduced wholesale contracting for electricity and gas together with the supporting process to facilitate this innovative approach to energy procurement.

By using NHS PASA national electricity contracts the NHS continues to exceed its targets for renewable energy and at no additional cost. The new oil contract awarded in October 2005 also includes an option to select bio diesel.

The energy team has also been involved in cross-government working to produce a joint paper on finding further energy savings, consequently a potential £1.5 million in efficiency savings has already been identified.

TELECOMMUNICATIONS

This wave 2 NCP project commenced in October 2005 with the contract awarded in March 2006. It is projected to achieve savings of £12 million over the next two years

from reduced call charges and (sometimes free) line rental. There is an expected contract uptake of 90% in 2008. The realisation of these benefits will involve the close collaboration of NHS PASA and the Category Consultation Group (CCG). The CCG was formed to influence the sourcing strategy and the commitment leverage, to ensure future compliance and to play an integral part in the delivery of the savings.

Information and Communications Technology (ICT)

There are a number of government projects that are being facilitated by the ICT team including the National Screening Programme for Diabetic Retinopathy, Screening for Babies and Bloodspot.

The skills and experience of the NHS PASA transport team have been recognised pan-government. NHS PASA is taking the lead on a number of fleet initiatives (e.g. a pan-government framework for tyres).

IS HOSPITAL FOOD HEALTHY?

During 2005/6 the Agency has launched a database containing nutritional information for all food products it procures. The database is freely available to caterers and dieticians in the NHS and also to suppliers. These groups were consulted throughout the development of the tool. As well as nutritional composition of the products, a comprehensive database of the suitability for patients with special diets (e.g. diabetes, renal failure) along with allergen information will also be available

This exciting development has been welcomed by all participants, as better nutrition through good food facilitates good health. It also demonstrates the Agency's commitment to deliver DH and wider government policies through procurement.

To assist hospitals in making healthier choices a comparison feature will also be available. Users will be able to view the nutritional composition of various

products and compare the information against models that the Food Standards Agency (FSA) has put out in consultation (the salt model and signposting scheme).

An example of the information on the database is shown below:

Product	Supplier	Salt	Fat	Sat.Fat	Sugar
Italian/Traditional/other – ready meals					
Beef Lasagne	Danbys Foods	MED	MED	MED	LOW
Lasagne (LCD)	Tillery Valley Foods	MED	MED	MED	LOW
Lasagne Verdi (9x9 MP)	Brakes	HIGH	MED	HIGH	LOW
Meat Lasagne	CFH Group	MED	MED	MED	LOW

This gives the opportunities for suppliers to understand the importance of the role of nutritional delivery into hospital food.

AUTHENTIC ETHNIC MEALS

For the first time a national framework agreement has been put in place for authentic ethnic meals. These are meals which satisfy specific religious or cultural requirements. Although dishes such as curries are available through our existing arrangements the ingredients and manner of food preparation do not necessarily satisfy these requirements. Previously the supply of these meals relied on local agreements, prices have been high and quality variable. With constantly growing demand the time was right for a national agreement. Meal types include African; Halal; Kosher and Caribbean.

The team working on the agreement are committed to being able to assure consumers that the products meet the requirements of their religious laws. For example,

although there is not yet a nationally agreed standard for Halal food, the Muslim community has its own food authorities which approve suppliers. To ensure that meals are available through this agreement which meet the standards, an imam and a rabbi were members of the product group which developed the agreement as well as representatives from the NHS.

PAGING IN EMERGENCIES

Mobile messaging plays an increasing role in emergency and business continuity plans and the Agency this year set up a framework agreement for these services. When terrorist bombs exploded in central London on 7 July 2005, rapid and effective communication was essential. However the huge peak volume of mobile phone calls generated meant the networks could not cope for some critical periods. Paging and messaging services stayed up and running and played a key part in the management of the incident.

In a single incident one service provider distributed nearly a quarter of a million messages between NHS trusts, emergency services, London Underground and the rail companies. This provided paging and SMS messaging capabilities to ensure a co-ordinated and informed response. Multiplied up this was a huge contribution to the operation.

ULTRASOUND

A new framework agreement, including all levels of ultrasound equipment, started on 1 January 2005 and will last for three years, with an option to extend for a further year. For the first time this includes endoscopic ultrasound. It is fully EU compliant and will eliminate the need for trusts to carry out their own tenders. Places were awarded to 16 suppliers, some of whom did not figure in the previous agreement.

This agreement is not just for England but also includes Wales and Northern Ireland. Many of the suppliers are offering new equipment and electronic endoscopy is

included for the first time. Applications ultrasound continue to expand as new methods are developed, such as 4D technology, which most of the larger suppliers now offer. Equipment covered includes echo-cardiac and all general imaging equipment. As new models come to market suppliers can add equipment including new technologies.

Using the framework is the best option for all trusts needing to buy new, or to update current, systems. Current spend in the UK is in the region of £51 million and significant savings are available to trusts.

TRANSPORTATION OF DIAGNOSTIC AND INFECTIOUS SAMPLES

The carriage of Dangerous Goods and Use of Transportable Pressure Equipment Regulations came into force in May 2004. Under its requirements diagnostic and infectious samples are identified by the United Nations substance identification number UN3373 as diagnostics specimens and are subject to packing instruction 650.

All trusts have a statutory duty to comply with these regulations when transporting diagnostic specimens from a clinic, surgery, health centre, hospital or other premises to a laboratory for analysis. This will ensure that specimens arrive at their destination in good condition and present no hazard to persons during transportation.

The packing instruction places a duty on the consignor to use layers of packaging and it specifies technical standards that apply to each of the layers. In order to comply with the new regulations the Agency has included compliant packaging on the national framework agreement for laboratory consumables which started on 1 April 2005.

MEDICAL EQUIPMENT MAINTENANCE

A business case was presented as part of the SCEP wave 2 programme proposing a nationally coordinated approach across NHS for major medical equipment procurement and maintenance. Research was then

carried out, in conjunction with strategic health authorities and NHS trust finance directors, in order to map future capital replacement plans

Category consultation groups were established to engage with procurement and clinical staff within hubs and confederations in order to develop a strategic approach to this maintenance category. The establishment of a medical equipment forum, in conjunction with PFU and the NHS Confederation, produced good practice guidance on alternative funding of equipment maintenance.

As a result of managing supplier performance one major supplier has made the strategic decision to move their customer service centre in Hungary and invest in a new UK based customer service centre from March 2006.

MEDICAL AND SURGICAL EQUIPMENT

The NHS Bowel Cancer Screening Programme, one of the first of its kind in Europe, commenced in April 2006 and is due to be rolled out across the country by 2009. This year the Agency worked with the NHS Bowel Cancer Screening programme to undertake the successful procurement of the testing kits that will be used throughout the programme.

DECONTAMINATION

A category team has been established to provide support for a key DH project, as well as working across categories and organisations to support the efficient procurement of associated products and services.

The team provides guidance and advice to the DH national decontamination team on all matters relating to procurement, liaising with all stakeholders to produce appropriate procurement guidance and ensure procurement regulations are followed.

The Agency also continues to support and develop the joint venture collaborations in their aim to outsource their

sterilisation service requirements. We currently provide local level procurement support and guidance to a total of 21 joint venture collaborations.

There has been a structured approach developed in order to provide guidance and support to joint venture collaborations, including standardised guidance, presentations and mapping interaction points. A competitive sterilisation market has been maintained through a consistent process of communication, supporting new entrants in to the market and ensuring local level briefing meetings are structured and informative.

NHS PASA staff have provided information and updates on the national decontamination programme, delivering presentations on the work the Agency is undertaking to a wide range of stakeholders.

AGENCY NURSING

London Agency Project (Wave 1)

Supported by external consultants and NHS Professionals, NHS PASA led the first eAuction for agency nursing in the NHS. The estimated market size at eAuction was £211.5 million and savings of £23.9 million (11.3%) were achieved.

The market size has reduced because of a number of DH initiatives to reduce NHS dependency on agency staffing, but the monitoring undertaken by NHS PASA shows that proportionate savings are averaging at 15% – approximately £1 million per month. The agreement also implemented Agenda for Change job descriptions.

In order to implement the agreement – which supplies over 90% of the demand for agency nursing in London – NHS PASA worked with stakeholders to develop commitment at the strategic, operational and clinical levels. The Project Board includes representation from SHAs, NHS Professionals, and at a senior procurement level.

Southern Agency Project (Wave 2)

Following the success of the London project, eAuctions were conducted in the two neighbouring regions by means of a variation order to existing NHS PASA frameworks. The market size estimate was £136 million. The saving on pre auction prices was £16.65 million (12%).

Compliance to the NHS PASA agreement has risen from approximately 40% to 70% since the implementation of the agreement in August 2005.

All other NHS PASA nursing framework agreements are now subject to a full new procurement – targeted to deliver 10% savings on current costs from its implementation in October 2006.

MEDICAL LOCUMS

The national framework agreement for the supply of medical locums has been re-negotiated, which for the first time also includes locum GPs. This is available for use by all NHS bodies and other participating authorities within England and Wales, it provides:

- major enhancements to quality standards, safeguarding patients' welfare
- projected annual cash releasing savings of approx. £22.4 million
- competitive total hourly charge pay rates and additional commitment discounts through nine volume business levels and three tier supplier status arrangements
- locum doctors of the highest quality and increased patient protection through enhanced NHS conditions of contract
- comprehensive local, regional and national customer choice through 37 nationally audited awarded supplier agencies
- transparency on invoicing and timesheets

LEASING

Four further advanced leasing workshops providing training to over 80 finance and purchasing managers across England were run during 2005/6. This brings the total number of these events over the last four years to over 20 with over 400 personnel having undertaken the course to enhance skills in this area. The events have proved so successful that every event has been oversubscribed.

PCT COMMISSIONING

During 2005/6 the Agency became more involved in the area of PCT purchasing and in conjunction with colleagues at the Department of Health published a Procurement Guide to assist PCTs undertaking tendering in the area of Alternative Provider Medical Services (APMS).

The Agency in conjunction with colleagues from the primary care contracting team undertook a series of master class procurement workshops aimed at PCT commissioning staff to assist them with understanding the legislative requirements of tendering of medical services. These events proved highly popular with over 150 PCT staff attending.

NEW NATIONAL FRAMEWORK FOR TEMPORARY STAFF

During 2005/6, a team from the Agency and Services directorate worked on putting in place a framework agreement to cover the NHS' rising annual £420 million expenditure on temporary administrative workers, locum allied health professionals and scientific staff.

The scientific locum market was previously unregulated nationally, meaning trusts were invariably paying high prices for locums which they knew very little about, especially whether vital criminal records checks or immunisations had taken place. These locums went directly on then to work alongside permanent staff with access to patients.

The situation is now rectified and there is a list of approved suppliers of allied health professionals, administrative staff as well as scientific staff.

The savings achieved in all three areas average out at around 14%, equating to around £58.8 million, releasing cash which is needed elsewhere in the NHS and ensuring that patient care is at the forefront of suppliers' minds when placing staff to help achieve NHS targets.

NATIONAL AUDIT TEAM

The role of the national audit team is to monitor the national framework agreements for medical locums, nurses and other personnel supplied to the NHS by the commercial agencies throughout the UK. Our fundamental objectives are to ensure that all workers supplied to the NHS are of high quality and do not present a risk to patient safety in the NHS.

The total number of audits undertaken at suppliers' premises over the year has been 253. These audits have raised quality standards.

STAKEHOLDER ENGAGEMENT

You will have seen across all these examples the emphasis we place on stakeholder engagement. Consultation in many of the categories involves a wide range of interests and views. We continue to develop our stakeholder networks to ensure we understand and meet their requirements wherever possible.

UPTAKE MANAGEMENT

Similarly you will have read several references to improved compliance and achievement of savings targets. During 05/06 we introduced a team of uptake specialists to develop and embed an uptake management process inclusive of the NHS. We will continue to build on the application of this process and role out of tools to assist in a transparent and consistent approach to this key requirement in realising savings targets.

SUSTAINABLE DEVELOPMENT

The UK government has defined sustainable development as the simple idea of ensuring a better quality of life for everyone, now and for generations to come.

The UK has four priority areas for immediate action:

- sustainable consumption and production
- climate change and energy
- natural resource protection and environmental enhancement
- sustainable communities.

The government also recognised that changing behaviour is cross cutting theme closely linked to all of these priorities.

Our role in procuring goods and services for the NHS means that we have considerable scope to influence performance of the health sector in all of these areas, and we have also been proactive in ensuring that we pay attention to our own internal actions, aided by our environmental management system which has been certified to ISO14001 since 2001.

Over the past year we have been involved in a number of initiatives which address the priority areas outlined above, including work on the cross government Timbers Buyers Group and the adoption of the latest guidelines for the procurement of legal and sustainable timber which have been developed by this group.

In addition a new national agreement for the supply of electric lamps and fluorescent tubes went live on 1 July 2005. The procurement exercise formed part of the Agency's environmental procurement pilot project. The procurement team worked closely with the sustainable development team and environmental consultants, Building Research Establishment (BRE), to identify the scope of the project and how energy efficient lighting

can be promoted throughout the NHS. This contract will help to deliver energy efficiencies and whole life cost benefits to the NHS.

After the most comprehensive whole life cost assessment of fax products in the public sector, the new fax agreement awarded collaboratively by OGCbuying.solutions and NHS PASA delivers whole life savings of 25% compared to the current NHS agreement. Included are free delivery and free multi-year 'repair on-site or replace' guarantees on all products. When developing this contract the whole life costs of the products were examined. This took into account costs of servicing, paper, delivery, installation, energy consumed, maintenance, parts and support, administration and disposal costs.

To help us continue to spread these principles to other categories and contracts we have developed a sustainable purchasing strategy and action plan that will bring greater structure to our approaches and help us develop and spread best practice, not only through NHS PASA but also with other NHS procurement bodies and wider government. The sustainable purchasing action plan places a strong emphasis on training and communication, utilising existing sustainable purchasing networks and forum, as well as working with suppliers to develop sustainable supply chains which deliver real improvement for the NHS.

The sustainable purchasing strategy and action plan will form a central plank of our efforts over the coming year in response to recommendations of the Defra Sustainable Procurement Task Force due to be published in June 2006.

NHS PASA progress against the targets set under the Framework for Sustainable Development on the Government Estate, as of 31 March 2006.

FRAMEWORK TARGET	Timescale	Progress
GENERAL		
A1 (identifying significant impacts)		Achieved
A2 (publishing delivery plans)		Achieved and ongoing
A3 (environmental management systems)		Achieved and ongoing
A4, A5 (public reporting)		Achieved and ongoing
TRAVEL		
B1 (reducing carbon dioxide emissions from vehicle use)		On target to achieve
B2 (10% of fleet cars to be alternatively fuelled)		Unlikely to achieve – dependent on individual preference
B3 (reducing single occupancy car commuting by 5%)		Unlikely to achieve – dependent on individual preference
WATER		
C1 (joining Watermark scheme)	September 2002	Achieved
C2 (reducing water consumption to 7.7m³ per person)	31 March 2004	Achieved
WASTE		
D1 (publish sustainable waste management strategy)		Achieved – published 11 March 2005
D2 (measure and monitor waste arisings)		Achieved
D3 (reduce total waste arisings by 1% per annum)	December 2006 onwards	Work already in progress – on target to achieve
D4 (increase recycling/composting rates by 5% per annum)	December 2006 onwards	Work already in progress – on target to achieve
D5 (insert standard Government waste minimisation clauses in contracts)	Three months after clauses are published	Ongoing
ENERGY		
E1 (reduce absolute carbon from fuel and electricity by 12.5%)	2010/11 (taking 1999/2000 as baseline)	Behind in progress towards target – due to increased energy requirements related to IT enhancements
E2 (increase energy efficiency of buildings by 15%)	2010/11 (taking 1999/2000 as baseline)	Behind in progress towards target – due to increased energy requirements related to IT enhancements
E3 (source at least 10% electricity from renewable sources)	31 March 2008	Achieved
E4 (source 15% electricity from CHP, except where departments already purchasing 100% renewable energy)	2010	Achieved
E5 (long term strategy for renewable energy on Government Estate)		Achieved
E6 (include energy efficiency clauses in estate management contracts)	August 2004 onwards	Being implemented – ongoing
PROCUREMENT		
F1 (publish sustainable procurement strategy)		Draft Sustainable Purchasing Strategy published for comment Dec 2005. Awaiting Sustainable Procurement Task Force report (due June 2006) to finalise
F2 (comply with Joint Note on environmental issues in purchasing)		Achieved – Environmental Purchasing Procedure issued Feb 2006

FRAMEWORK TARGET	Timescale	Progress
PROCUREMENT (continued)		
F3 (training on sustainable procurement)		Training has been developed and delivered in 2004/05 however due reorganisation and development of the Sustainable Purchasing Strategy no training has been delivered in 2005/06. Training is planned for the coming year as part of the sustainable purchasing strategy
ESTATES MANAGEMENT		
G1, G1B, G1C, G1F (publish estates management strategy)	1 December 2005	Will achieve by deadline
G1A (include sustainable development criteria in new build and refurbishments)		Not applicable – no new builds or refurbishments planned
G1D (management of historic buildings)		Not applicable – no historic buildings on estate
G1E (disposal of surplus land/property)		Not applicable – no surplus land or property
G2 (include sustainable development issues in estates management contracts)		Achieved
BIODIVERSITY		
H1 (assessing biodiversity impacts of estate)		Achieved – integrated within EMS
H2 (auditing and managing significant biodiversity impacts)		Not applicable – no significant biodiversity impacts on estate due to size and location
H3 (develop management plans for significant biodiversity impacts)		Not applicable – no significant biodiversity impacts on estate
H4 (management of Sites of Special Scientific Interest – SSSIs)		Not applicable – no SSSIs
H5 (consideration of biodiversity issues in estates contracts)		Achieved
SOCIAL IMPACTS		
I1 (developing strategy for monitoring social impacts associated with management of land, buildings and operations)	31 March 2006	Work to commence 2005/6
Total no. targets achieved	14	
Total no. targets in progress and likely to be achieved within required timeframe	16	
Total no. targets unlikely to achieve	2	
Total no. targets not applicable	6	
TOTAL NO. TARGETS	38	

Progress against the government framework sustainable development targets has continued throughout the past year. The most notable progress has been in the development of the sustainable purchasing strategy and incorporation of further environmental considerations into our purchasing procedures. Both of these areas are fundamental to helping address our most significant sustainable development aspects.

Other priority areas for attention over the coming year include addressing a rising trend in energy consumption across the Agency. While this is in some part due to essential enhancements to our IT infrastructure, it is a trend we are committed to reversing.

Proposed changes to the framework for sustainable development, due to be announced this year, will also need to be addressed through our EMS and as such it is planned that we will report against these new targets (wherever possible) in next year's report.

(note – text highlighted in bold indicates that exact figures are not currently available)



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 until they reach the normal retiring age of 60. 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 to 27 May 2007.

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	2005/06		2004/05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Mr Duncan Eaton, Chief Executive	110-115	10	105-110	10
Mr Christopher Uden, Director	105-110	0	105-110	0
Mr Eric Jackson, ¹ Director	0-5	0	110-115	0
Mr John Cooper, Director	80-85	0	75-80	0
Mr Andrew Rudd, Director	70-75	22	60-65	37
Mr Marcus Brindle, Director	80-85	0	70-75	0
Mr Neil Argyle, Director	70-75	20	70-75	18
Ms Helen MacCarthy, ² Director	60-65	15	—	—
Mr Clem Brohier, Director of Finance	60-65	0	60-65	0
Ms Alyson Gerner, Director	65-70	4	55-60	15
Mr John Warrington, Director	65-70	17	60-65	0
Mr Chris Theaker, Director	65-70	0	60-65	2

1 Mr Eric Jackson retired on 5 April 2005

2 Ms Helen MacCarthy was appointed on 15 May 2005



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.

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 31/3/05	CETV at 31/3/06	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, Chief Executive	0 – 2.5 plus 2.5 – 5.0 lump sum	50 – 55 plus 160 – 165 lump sum	1,093	1,339	29
Mr Christopher Uden, Director	0 – 2.5 plus 5 – 7.5 lump sum	50 – 55 plus 150 – 155 lump sum	978	1,218	39
Mr Eric Jackson, Director ³	-2.5 – 0 plus -2.5 – 0 lump sum	50 – 55 plus 155 – 160 lump sum	1,096	1,223	-110
Mr John Cooper, Director	0 – 2.5 plus 5 – 7.5 lump sum	30 – 35 plus 100 – 105 lump sum	502	673	38
Mr Andrew Rudd, Director	0 – 2.5 plus 5 – 7.5 lump sum	15 – 20 plus 55 – 60 lump sum	209	314	36
Mr Marcus Brindle, Director	0 – 2.5 plus 5 – 7.5 lump sum	30 – 35 plus 100 – 105 lump sum	474	634	36
Mr Neil Argyle, Director	0 – 2.5 plus 2.5 – 5 lump sum	25 – 30 plus 80 – 85 lump sum	495	632	24
Ms Helen MacCarthy, Director	2.5 – 5.0 plus 10 – 12.5 lump sum	10 – 15 plus 40 – 45 lump sum	97	176	41
Mr Clem Brohier, Director of Finance	0 – 2.5 plus 0 – 2.5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	12	30	12
Ms Alyson Gerner, Director	2.5 – 5 plus 7.5 – 10 lump sum	15 – 20 plus 50 – 55 lump sum	153	249	37
Mr John Warrington, Director	0 – 2.5 plus 5 – 7.5 lump sum	15 – 20 plus 50 – 55 lump sum	197	300	38
Mr Chris Theaker, Director	0 – 2.5 plus 5 – 7.5 lump sum	20 – 25 plus 60 – 65 lump sum	216	323	36

³ Mr Eric Jackson retired on 5 April 2005

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).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Columns 4 & 5 of table b) show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 6 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

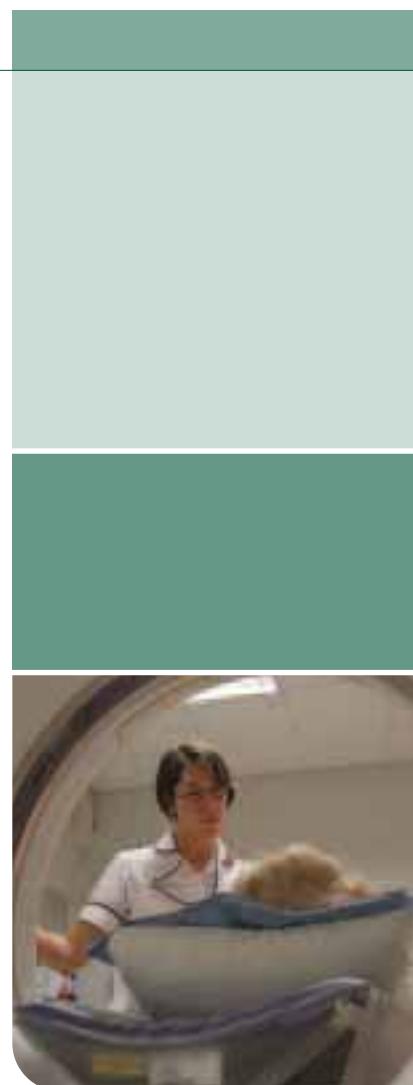
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment 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 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 Civil Service 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.

Duncan Eaton
Chief Executive
28 July 2006

Annual Accounts **2005/6**

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Statement of Agency's and Chief Executive's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000, the NHS Purchasing and Supply Agency is required to prepare financial statements for each financial year in conformity with a Treasury Direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, the net resource outturn, recognised gains and losses and cash flows for the financial year.

The Department of Health has appointed the Chief Executive of the NHS Purchasing and Supply Agency as the Accounting Officer for the Agency, with responsibility for preparing the Agency's financial statements and for transmitting them to the Comptroller and Auditor General.

In preparing the financial statements, the Accounting Officer is required to comply with the Government Financial Reporting Manual and in particular to:

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed and disclose and explain any material departures in the accounts; and
- prepare the financial statements on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'.



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 OF INTERNAL CONTROL

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

- to identify and prioritise the risks to the achievement of the 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 2006 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
- 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 is chairman of the Risk Management Group (RMG), comprising staff representing all aspects of the Agency, which provided a policy and terms of reference by which risk will be managed and reported. The RMG cascades risk management culture to all staff.

Corporate risks are aligned to the Agency's aims and objectives 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 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 2005/06 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 high level risk reports. The ME reviewed high level risk reports at its monthly meetings.

The main activity of the Agency is purchasing. An in-house system to record progress on activities is operational and includes a risk module, which highlights any areas which require escalation and approval where the risk is considered to be high. For non-purchasing

activities procedures and policies exist which incorporate risk management.

During 2005/6 the Agency implemented the new organisation structure and recruited to the newly designed roles as recommended in the AT Kearney report for the Commercial Directorate DH. This represented a significant change for the Agency and a project team was set up to manage the transition process. The main issues it focused on included:

- Recruitment
- Internal and external communication
- HR issues
- Business process redesign
- IT system development
- Training
- Finance.

This project team met frequently during the year and escalated issues to the ME when necessary.

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
- RMG, which reports into the ME monthly
- monthly production of key performance indicators, e.g. savings generated
- comprehensive budgeting and forecasting systems
- review, by ME, of monthly and annual financial reports
- IT security accreditation (BS7799)
- European Foundation for Quality Management
- Environmental Management System (EMS), (ISO 14001)

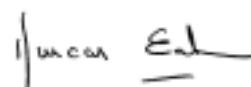
The Agency benefits from an internal audit service supplied by an external contractor, which operates to agreed internal audit standards. The service reports on the adequacy and effectiveness of the Agency's system of internal control.

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.



Duncan Eaton
Chief Executive
28 June 2006



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 2006 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.

RESPECTIVE RESPONSIBILITIES OF THE AGENCY, THE CHIEF EXECUTIVE AND AUDITOR

The Agency and Chief Executive are responsible for preparing the Annual 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 in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and 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 also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 30 and 31 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover 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. This other information comprises only the Chief Executive's Statement, the Directors' Report, the Management Commentary, Performance against Business Targets 2005/6, A Review of 2005/6 and the unaudited part of the Remuneration Report. 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 Executive, 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

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 2006 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

11 July 2006



Operating Cost Statement for the Year Ended 31 March 2006

	Notes	2005/6 £000's	Restated 2004/5 £000's
Administration costs			
Staff costs	2	17,873	16,088
Other administration costs	2	<u>10,945</u>	<u>10,046</u>
Gross administration costs		28,818	26,134
Operating income	2	<u>(2,039)</u>	<u>(1,517)</u>
Net operating cost		<u>26,779</u>	<u>24,617</u>

All of the above expenditure relates to continuing operations.

Statement of Recognised Gains and Losses for the period ended 31 March 2006

	Notes	2005/6 £000's	2004/5 £000's
Net gain/(loss) on revaluation of tangible fixed assets	2	<u>23</u>	<u>289</u>

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

The notes on pages 39 to 53 form part of these financial statements.

Balance Sheet as at 31 March 2006

	Notes	As at 31 March 2006		As at 31 March 2005	
		£000's	£000's	£000's	£000's
Fixed assets					
Tangible assets	8		2,181		2,127
Intangible assets	9		449		274
Current assets					
Debtors: amounts falling due within one year	11	1,514		1,008	
Cash at bank and in hand	12	<u>16</u>		<u>39</u>	
		1,530		1,047	
Creditors: Amounts falling due within one year	13	<u>(3,496)</u>		<u>(1,861)</u>	
Net current (liabilities)			<u>(1,966)</u>		<u>(814)</u>
			664		1,587
Total assets less current liabilities					
Provision for liabilities and charges	15		<u>(2,240)</u>		<u>(1,624)</u>
			<u>(1,576)</u>		<u>(37)</u>
Taxpayers equity					
Revaluation reserve	16		497		475
General Fund	17b		<u>(2,073)</u>		<u>(512)</u>
			<u>(1,576)</u>		<u>(37)</u>

The notes on pages 37 to 51 form part of these financial statements.

Duncan Eaton
Accounting Officer
29 June 2006



Cash Flow Statement for the Year Ended 31 March 2006

	Notes	2005/6 £000's	2004/5 £000's
Reconciliation of operating costs to operating cash flows			
Net operating cost		(26,779)	(24,617)
Pre-merger CEP costs paid by MHRA		970	3,445
Adjustment for non-cash transactions			
Depreciation	4	282	350
Impairment of fixed assets	4	89	35
Other notional costs	4	57	97
Interest on capital employed	4	(29)	9
Auditor's remuneration and expenses	4	52	52
Provisions		616	1,167
Profit from sale of fixed assets		(7)	-
Adjustment for movements in working capital other than cash	10	15,947	13,904
Net cash (outflow) from operating activities		(8,802)	(5,558)
Capital expenditure and financial investment:			
Payments to acquire fixed assets	8&9	(796)	(293)
Proceeds from sale of fixed assets		226	-
Financing			
Financing from Department of Health	17a	9,349	5,850
Decrease in cash in the period	12	(23)	(1)

The notes on pages 37 to 51 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2006

1. Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual and directions issued 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 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.

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
Motor vehicles	4 years
Other equipment	5 years

Depreciation is also provided on computer software, classified as intangible fixed assets. The estimated useful life is 5 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 3.5 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 2003 and details can be found in the separate scheme statement of the PCSPS. Total payments to the scheme in the year were £2,332k.

There were no employees taking part in the 'money purchase' stakeholder arrangement (partnership pension account) in 2005/6.

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 2005/6 are:

Salary band		%
£0	–	£18,000 16.2
£18,001	–	£37,000 18.6
£37,001	–	£63,500 22.3
£63,501	+	24.6

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) Basis of Consolidation

The operations of the Device Evaluation Service (DES) were transferred from the MHRA (Medicines and Healthcare products Regulatory Agency) to NHS PASA on 1 September 2005. The transfer of DES, renamed the Centre for Evidence-based Purchasing, (CEP), was accounted for in accordance with the principles of merger accounting as set out in FRS 6 'Acquisitions and Mergers'. Comparatives for 2004/5 have been restated, where possible, to take account of this transfer. It was not possible to separately identify the assets and liabilities relating to DES as at the 31 March 2005 and consequently the balance sheet has not been restated.

l) 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.

2. Analysis of Operating Costs

Notes	2005-2006				2004-2005		
	1 April to £000's PASA	31 August £000's CEP	1 Sep to 31 Mar £000's Combined	Full Year £000's Consolidated	£000's PASA	£000's CEP	£000's Combined
Administration costs							
Staff costs	3a	6,421	157	11,295	17,873	15,676	412
Other administration costs	4	1,855	1,634	7,456	10,945	6,901	3,145
Gross administration costs		8,276	1,791	18,751	28,818	22,577	3,557
Operating income	5	(448)	(46)	(1,545)	(2,039)	(1,405)	(112)
Net operating cost		7,828	1,745	17,206	26,779	21,172	3,445

All of the above expenditure relates to continuing operations.

Statement of Recognised Gains and Losses for the period ended 31 March 2006

	2005-2006				2004-2005		
	1 April to £000's PASA	31 August £000's CEP	1 Sep to 31 Mar £000's Combined	Full Year £000's Consolidated	£000's PASA	£000's CEP	£000's Combined
Net gain/(loss) on revaluation of tangible fixed assets							
	16			23	23	289	289

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

3. a) Staff costs

	2005/6 £000's	2004/5 £000's
Wages and salaries	11,352	11,231
Termination payments	1,201	1,167
Social security costs	1,056	976
Pension costs	2,332	1,675
Sub total	15,941	15,049
Pre-merger CEP staff costs	157	412
Inward secondments, agency and contract staff	1,775	627
Total	17,873	16,088
Less recoveries from outward secondments	(644)	(1,133)
Total net costs	17,229	14,955

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:

	2005/6 wte	Restated 2004/5 wte
Permanent employees	316	329
Inward secondments	1	2
Agency and contract staff	33	11
Operations	350	342

Of the 316 average number of permanent employees in 2005/06, 94 were support staff.

4. Other administration costs

	2005/6 £000's	Restated 2004/5 £000's
Operating lease payments:		
Land and buildings	331	331
Other leases	89	154
Non-cash items:		
Depreciation and amortisation	282	350
Impairment of fixed assets	89	35
Interest on capital employed	(29)	9
Auditor's remuneration and expenses	52	52
Other notional costs	57	97
Other expenditure		
Other staff related including training	1,795	1,649
Estate recurrent costs	1,010	1,158
CEP costs	2,975	3,145
Professional fees	2,250	2,182
Energy Trading Costs	539	–
Other	1,505	884
	<hr/> <u>10,945</u>	<hr/> <u>10,046</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.

5. Operating income

	2005/6 £000's	Restated 2004/5 £000's
Appropriated in aid:		
Cost recovery from external organisations	1,450	1,401
Cost recovery from employees	4	4
Energy trading contributions	539	–
Pre-merger CEP operating income	46	112
Total	2,039	1,517

6. Interest on capital employed

	2005/6 £000's	2004/5 £000's
Interest on capital employed	(29)	9

7. 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 2006 these collections totalled £2,419 excluding VAT (2004-2005: £1,418), all of which were passed to the Department of Health and are therefore not reflected in these accounts.

8. Tangible fixed assets

	Land £000's	Buildings £000's	Office Equipment £000's	IT Equipment £000's	Motor Vehicles £000's	Assets under construction £000's	Total £000's
Costs or valuation:							
At 1 April 2005	325	1,000	372	1,134	518		3,349
Additions			62	362		89	513
Disposals					(518)		(518)
Transfers							
Surplus/(deficit) on indexation	5	15	(4)	(182)			(166)
At 31 March 2006	330	1,015	430	1,314	–	89	3,178
Depreciation:							
At 1 April 2005			118	838	266		1,222
Provided during the year		20	40	120	33		213
Disposals					(299)		(299)
Transfers							
(Surplus)/deficit on indexation	–	–	(5)	(134)			(139)
At 31 March 2006		20	153	824			997
NBV At 31 March 2006	330	995	277	490	–	89	2,181
NBV At 1 April 2005	325	1,000	254	296	252		2,127

Land and buildings are all freehold. All assets are owned and in current use as at 31 March 2006.

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.

9. Intangible fixed assets

	£000's
Cost or Valuation	
At 1 April 2005	385
Additions	284
Disposals	–
Transfers	–
Surplus/(deficit) on indexation	<u>(61)</u>
At 31 March 2006	608
Amortisation	
At 1 April 2005	111
Provided during the year	68
Disposals	–
Transfers	–
(Surplus)/deficit on indexation	<u>(20)</u>
At 31 March 2006	159
NBV At 31 March 2006	449
NBV At 1 April 2005	274

10. Movements in working capital other than cash

	2005/6 £000's	2004/5 £000's
Increase in debtors	(506)	(464)
Increase in creditors	1,635	494
Non-cash financing from Department of Health	<u>14,818</u>	<u>13,874</u>
Net cash inflow	<u>15,947</u>	<u>13,904</u>

11. Debtors: amounts falling due within one year

	31 March 2006 £000's	31 March 2005 £000's
Trade debtors	245	445
Department of Health debtors	290	142
Prepayments and accrued income	<u>979</u>	<u>421</u>
	<u>1,514</u>	<u>1,008</u>

12. Cash at bank and in hand

	2005/6 £000's	2004/5 £000's
Balance at 1 April	39	40
Net cash inflow:	<u>(23)</u>	<u>(1)</u>
Balance at 31 March	<u>16</u>	<u>39</u>

13. Creditors: amounts falling due within one year

	31 March 2006 £000's	31 March 2005 £000's
NHS Trade creditors	421	6
Other Trade creditors	451	665
Staff creditors	31	21
Deferred Income	64	–
Accruals	<u>2,529</u>	<u>1,169</u>
	<u>3,496</u>	<u>1,861</u>

14. Intra-government balances

	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: Amounts falling due within one year	Creditors: Amounts falling due after more than one year
	£000	£000	£000	£000
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	
Balances with other central government bodies	463	–	45	–
Balances with local authorities	–	–	90	–
Balances with NHS Trusts	73	–	6	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	472	–	1,720	–
At 31 March 2005	1,008	–	1,861	–

15. Provisions

	Restructuring £000's	Early Retirements £000's	Total £000's
At 1 April 2005	1,487	137	1,624
Provided in the year	1,778	–	1,778
Paid in the year	(585)	–	(585)
Released in the year	(577)	–	(577)
At 31 March 2006	<u>2,103</u>	<u>137</u>	<u>2,240</u>
Expected timing of cash flows:			
Less than one year	1,173	120	1,293
One to five years	637	–	637
Over five years	<u>293</u>	<u>17</u>	<u>310</u>
	<u>2,103</u>	<u>137</u>	<u>2,240</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.

16. Revaluation reserve

	2005/6 £000's	2004/5 £000's
Balance at 1 April	475	186
Indexation/Revaluation	22	289
Balance carried forward at 31 March	497	475

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

	2005/6 £000's	Restated 2004/5 £000's
Net operating cost for the year	(26,779)	(24,617)
Pre-merger CEP costs paid by MHRA	<u>970</u>	<u>3,445</u>
	<u>(25,809)</u>	<u>(21,172)</u>
Net funding from the Department of Health:	24,168	20,062
Notional charges		
Interest on capital employed	(29)	9
Auditor's remuneration	52	52
Other notional costs	57	97
Net decrease in General Fund	<u>(1,561)</u>	<u>(952)</u>

b) Movements in the General Fund

	2005/6 £000's	2004/5 £000's
General Fund at 1 April 2005	(512)	440
Net decrease in year	(1,561)	(952)
General Fund at 31 March 2006	<u>(2,073)</u>	<u>(512)</u>

18. Commitments under operating leases

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

	2005/6 £000's	2004/05 £000's
Land and Buildings		
Leases which expire after five years	–	314
Leases which expire within five years	331	18
Other Leases		
Leases which expire within one year	61	6
Leases which expire within two to five years	182	5

19. 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 (a special health authority), which total £215,069 in the year. In addition to these transactions a notional charge of £57,000 has been made to the operating cost statement in respect of accommodation received free of charge by the Agency. The notional charge is based on an estimate of market rent. Approximately 40 Agency staff are located on a site belonging to NHS Logistics and provide purchasing services to NHS Logistics for which the Agency makes no charge.

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.

20. Losses and special payments

During 2005/06, there were 33 cases of losses and special payments totalling £9,784 approved by the Chief Executive in accordance with the Agency's framework document.

21. Capital commitments

There were no capital commitments at 31 March 2006.

22. Contingent liabilities

There are no contingent liabilities as at 31 March 2006.

23. Post balance sheet event

There are no material post balance sheet events.

24. 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

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