

**ANNUAL REPORT AND ACCOUNTS
2005-2006**

**Looking after your Pensions
Looking after your Bursary
Looking after you**

The NHS Pensions Agency is a NHS Special Health Authority

NHS Pensions Agency Special Health Authority
(Asiantaeth Pensiynau'r GIG)

ANNUAL REPORT & ACCOUNTS
2005-06

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Executive Summary

This Report reflects on the last year (1 April 2005 – 31 March 2006) of the NHS Pensions Agency as a stand alone NHS Special Health Authority. From 1 April 2006 it merged with four other NHS organisations to form the NHS Business Services Authority (NHSBSA).

This review therefore looks at financial and non-financial performance during the year, the preparations that took place for assimilation into the NHSBSA, and looks ahead at the challenges facing the newly established Pensions Division in the years ahead as part of the NHSBSA.

The key aspects of 2005-06 were:

- In July 05 – Launch of 3-year Pension Modernisation Change Programme;
- In October 05 – Implementation of the PenServer pension administration system;
- In October 05 – Setting up of the NHS Business Services Authority (BSA) and subsequent transition activity for transfer of the Agency to the NHS BSA on 1 April 2006;
- In October 05 – Electronic Staff Record (ESR) went live;
- Successful implementation of legislative changes (FACT, A Day);
- Qualification of the 2004-05 Administration Accounts and subsequent remedial action;
- Improvements in customer liaison – Higher Education Institutes focus groups, improvements to Student Grants Unit website and Open Days and User Groups for NHS Employers regarding the pension and Injury Benefit services;
- Successful completion of Business Continuity Planning tests;
- Implementation of the new NHS pay system Agenda for Change;
- Outsourcing Project activity.

The key challenges ahead are:

- Making efficiency savings
- Successful implementation of Legislative changes
- Completion of the Outsourcing Project
- Taking forward the outcome of Scheme Legal and Policy Reviews

Statement On The Merger Of The NHSPA into the NHS Business Services Authority (1 April 2006)

In October 2003 the Secretary of State announced the intention to review the Department of Health's Arms Length Bodies, of which the NHS Pensions Agency was one. Subsequently, a report "Reconfiguring the Department of Health's Arms Length Bodies" was published which detailed the bodies that would merge, be abolished, or see their functions transferred. This was followed in November 2004 by the publication of "An Implementation Framework for reconfiguring the Department of Health's Arms Length Bodies", setting out the principles, processes and timescales by which the change programme would be implemented. As a result the NHS Pensions Agency was

dissolved on 31 March 2006 and with effect from 1 April 2006, its functions were transferred to the NHS Business Services Authority, a Special Health Authority created on 1 October 2005.

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

Nick Scholte
Chief Executive NHS BSA
7 July 2006

TIMELINE OF KEY EVENTS – 2005-06

April 05	<ul style="list-style-type: none"> • Visit by local MP Joan Humble. • Issued the formal response to the Consultation Document on the Review of the NHS Pension Scheme. • Agenda for Change evaluations and job matching exercises commenced. • Work on system development and training guidance for Gender Recognition Act (effective from 1 April 2005).
May 05	<ul style="list-style-type: none"> • Audit commenced of NHS Pensions Agency Administration Accounts by the National Audit Office.
June 05	<ul style="list-style-type: none"> • Completion of the Greenbury Exercise 2004-05. • Open Day for Employers.
July 05	<ul style="list-style-type: none"> • Launch of the Pensions Modernisation Change Programme.
August 05	<ul style="list-style-type: none"> • Newsletter sent to students, information posters provided at Universities and further improvements made to SGU website.
September 05	<ul style="list-style-type: none"> • Audit commenced of the NHS Pension Scheme Resource Accounts 2004-05. • Training commenced in readiness for PenServer ‘Go-Live’. • Informed employers of Pensions Modernisation Change Programme including PenServer ‘Go-Live’ in October. • Successful completion of third phase of off-site Business Continuity Plan tests.
October 05	<ul style="list-style-type: none"> • The NHS Business Services Authority was established. • Electronic Staff Record (ESR) system went live. • Launch of the PenServer pension administration system. • First meeting of the Pensions Modernisation Change Programme Executive Steering Group, to take forward the programme for the next 2½ years. • Board advised of the outcome of the Public Services Forum agreement on Public Sector Pensions, forming the framework for negotiations on changes to the NHS Pension Scheme.
November 05	<ul style="list-style-type: none"> • Annual Report & Accounts 2004-05 laid in Parliament – Accounts qualified due to issues with NHS Bursary award documentation. • NHS staff issued with leaflet informing them of Legislative changes in relation to Tax (A Day) from 1 April 2006 – and Agency’s website updated with information. • Open Day for Employers. • Presentations to staff on the proposed future arrangements for Pensions and Bursary services under the NHS BSA.
December 05	<ul style="list-style-type: none"> • Presentations to staff by the Interim Chief Executive of the NHS BSA – explained about the setting up of the BSA and the option to move to full contractorisation with Paymaster. • Outsourcing Project on the proposed move to full contractorisation commenced.
January 06	<ul style="list-style-type: none"> • Announced SGU would be a separate outsourcing exercise. • Student Grants Unit Back Audit exercise commenced. • Final test completed for off-site Business Continuity Plan. • Pension Scheme Resource Accounts 2004-05 laid in Parliament. • 2 Employer User Group meetings held at the Agency.
February 06	<ul style="list-style-type: none"> • Chief Executive resigned on 28 February 2006, Director of Operations appointed as Acting Chief Executive from 1 March 2006, and Assistant Director of Operations appointed as Acting Director of Operations from 1 March 2006. • Regulation 10 TUPE letter issued (for the transfer of staff from the NHS Pensions Agency SpHA to the NHS BSA on 1 April 2006). • Requirements and design work for Finance Act (FACT) changes completed and development underway. • First Electronic Staff Record (ESR) Project Board meeting took place. • ESR/NHSPA held joint workshop in Warwick for all 40 live ESR sites. • SGU scanning exercise commenced.
March 06	<ul style="list-style-type: none"> • Commencement of full roll-out of ESR to Employing Authorities – affects error rates coming through the system. • Greenbury Exercise 2005-06 commenced.

Introduction

Report Purpose and Focus

This Annual Report incorporates the Operating and Financial Review and has been prepared as a requirement under the Companies Act 1985 (Operating and Financial Review and Directors' Report) Regulations 2005 (SI 2005 no 1011), using Reporting Standard (RS) 1: Operating and Financial Review. The Accounting Standards Board issued this reporting standard and the Treasury decided that Government bodies should adopt these requirements.

The Report provides a record of the NHS Pensions Agency's activity and performance during the 2005-06 financial year, its last year operating as a NHS Special Health Authority. It provides an account of the administration of the NHS Pension and Bursary Schemes and offers an objective appraisal of progress towards the Agency's strategic goals. The Report does not cover the NHS Pension Scheme Resource Accounts, which are published separately.

The Annual Report and Accounts focuses on matters relevant to a wide number of stakeholders who interact with the Agency, as represented on page 6.

Background to the Agency

The Health Service Superannuation Branch was formed in 1947 to coincide with the establishment of the National Health Service (NHS). Following an extensive review, the NHS Pensions Agency was launched on 20 November 1992 as an Executive Agency of the Department of Health under the Government's 'Next Steps' initiative.

Further reviews have been undertaken since then:

- In 1998, leading to the partial contractorisation of work from January 2002. A 15-year contract with Envision (a consortium led by Paymaster (1836) Ltd) commenced on 1 January 2002. The contract included: support services, facilities management, medical services, Information Technology services and pension payment facilities. The core pensions administration, policy and compliance, contract management, resource management, corporate change, and some Information Services and Finance remained with the Agency.
- In 2002, leading to a change of status from 1 April 2004, when the Agency became a Special Health Authority, in keeping with the policy of devolving delivery to be as close to the NHS as possible. The newly established NHS Pensions Agency Special Health Authority (Asiantaeth Pensiynau'r GIG) also included the work of the Student Grants Unit (SGU), which had previously been hosted by a local Acute Trust. This meant an expansion to the Agency's remit to include bursaries.
- As a consequence of the Arms Length Body Review (ALBR), details of which were published by the Government in July 2004, on 1 April 2006 the Agency will be merged with the Prescription Pricing Authority, the Dental Practice Board, the Counter Fraud and Security Management Services Authority and NHS Logistics to form the new NHS Business Services Authority (BSA). The Agency will then be known as the NHS BSA Pensions Division.

Location and Business

The NHS Pensions Agency is based at Fleetwood in Lancashire, and its vision is to:

Support the objectives of the NHS by delivering high quality, cost effective pension and bursary services.

The NHS Pensions Agency (Asiantaeth Pensiynau'r GIG) Special Health Authority administers:

- The NHS Pension Scheme in England and Wales;
- The Injury Benefits Scheme in England and Wales, which is open to all NHS staff; and
- The NHS Bursary Scheme for England.

The services are provided from a single site in Fleetwood, and make the NHS Pensions Agency one of the major local employers, with some 386 staff. There are three Directorates in the Agency – Operations; Finance, IT and Partnership; and Corporate Services. The Directors, along with the Chief Executive, form the Agency's Executive Team, and are identified in this Report with individual and collective responsibility for delivery.

The NHS Pension Scheme

The NHS Pension Scheme provides retirement benefits in a range of different circumstances. The Scheme is an unfunded statutory scheme backed by the Exchequer, which is open to all NHS employees, General Practice contractors and their staff, General Dental Practitioners and employees of other approved organisations in England and Wales. It provides pensions for employees of around 10,500 participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits. In 2004-05 the Scheme received contributions of £6 billion and made payments of benefits totalling £3.4 billion (2004-05 audited figure).

The NHS Pension Scheme is the largest centrally administered public service pension scheme in the UK. It services more than 1.2 million active members, over 350,000 members with preserved rights and over 536,000 pensioners. The complexity of the Scheme is highlighted by the unusually mobile and diverse NHS employee base, with ages from 16-70, weekly hours from 1-50 and jobs ranging from healthcare professionals and self-employed contractors, to paramedics, administrators and manual support staff.

The Injury Benefits Scheme

The Agency is also responsible for administering the Injury Benefits Scheme, which is open to all NHS staff. Under the NHS (Injury Benefits) Regulations 1995, as amended, the Scheme provides a guaranteed level of income for those staff who have suffered a permanent loss of earning ability as the result of an illness or injury which is attributable to their NHS employment.

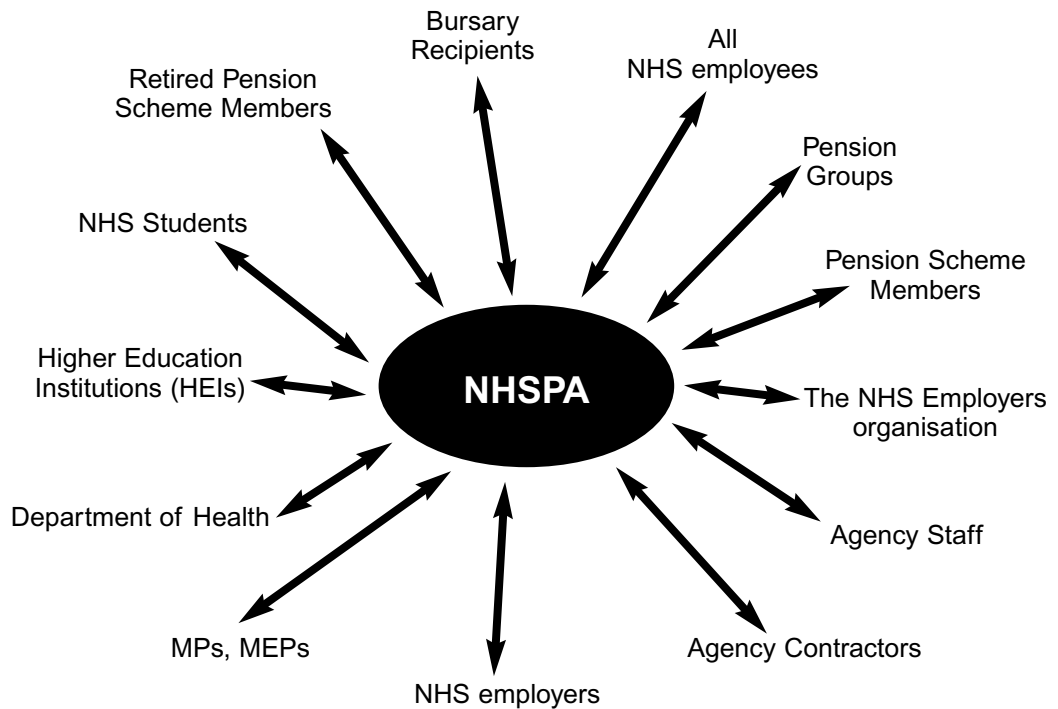
The NHS Bursary Scheme

The Agency has responsibility for the prompt and accurate assessment, review and payment of NHS funded bursaries and practice placement costs applied for by NHS funded students attending pre-registration courses at English Higher Education Institutions – the ‘NHS Bursary Scheme’. There is a range of bursaries and other allowances, covering everyday living costs, including childcare, for eligible NHS students.

The NHS Bursary Scheme sets out the type and level of financial support available to the 90,000 health professional students (projected to year end at 31 March 2007) undertaking one of 1,400 NHS commissioned pre-registration training courses at any of the 170 approved Universities. The Bursary Scheme has made payments of £415m, with an additional £18m for childcare allowances.

Agency Stakeholders

The stakeholders with whom the Agency interfaces are both wide and varied:



Further background information on the Agency and its workings, including the records of the Special Health Authority Board meetings, are available at www.nhspa.gov.uk.

Governance Arrangements

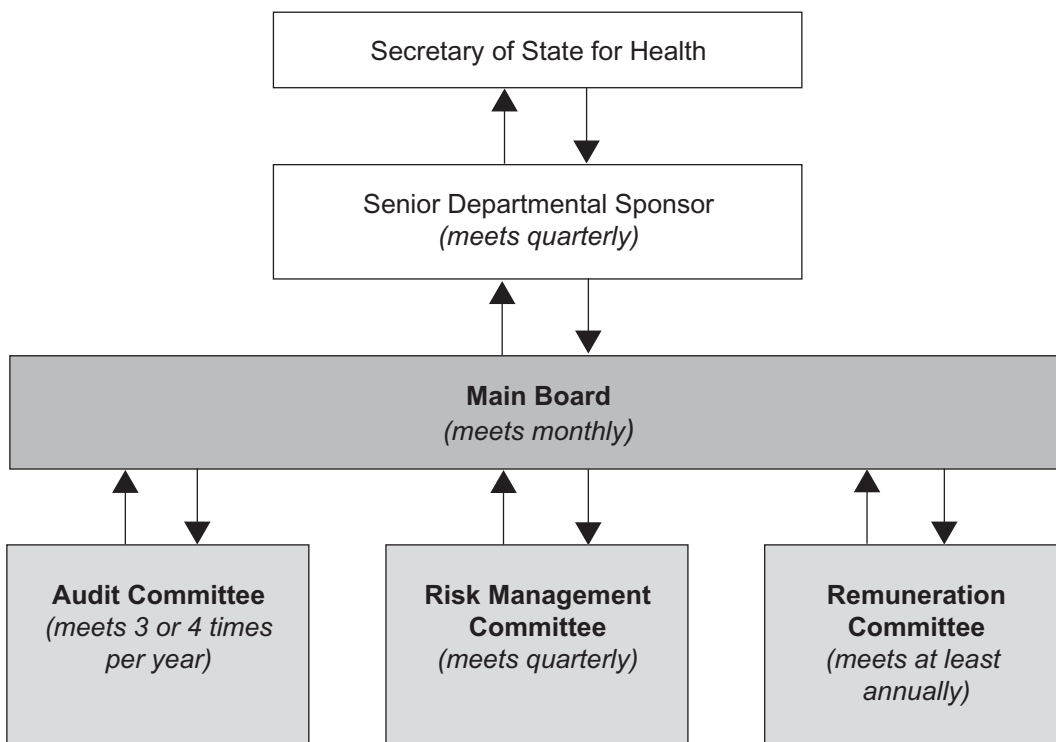
Board

The Agency's current Governance arrangements were put in place with the move to Special Health Authority status. The Agency's Board was established through the Membership and Procedure Regulations 2004 (Statutory Instrument 2004 No.668) on 1 April 2004. The Agency's Framework Document incorporated the Establishment and Constitution Order (Statutory Instrument 2004 No.667), Membership and Procedure Regulations 2004 (Statutory Instrument 2004 No. 668) and Directions from the Secretary of State (Statutory Instrument 2004 No. 665), and sets out the framework within which the Agency and its Board operated.

The Board comprised:

- Chair
- 5 Non-Executive Directors
- Chief Executive
- 3 Executive Directors

Senior Governance Structure



Board Meetings were open to the press and the public and were conducted in accordance with Section 1 (2) Public Bodies (Admission to Meetings) Act 1960. Papers for the Public Agenda appeared on the Agency's website, with an invitation to attend the public meetings appearing in the local Press.

Link to Departmental Sponsors

The Agency was sponsored by the Department of Health, who were responsible for ensuring that its procedures and mechanisms operate effectively, efficiently and in the interest of the public and the NHS. The Senior Departmental Sponsor held quarterly and an annual review with the Chair, Chief Executive and Executive Directors to discuss the Agency's operational and financial performance and developments. There was also ongoing liaison throughout the year, including attendance by the Sponsor at the Agency Board meetings.

Risk Management Committee

The Risk Management Committee met on 4 occasions during 2005-06 to review the Agency's risk management arrangements. The Committee ensured that the Agency had in place an effective assurance framework and Corporate Risk Register and that the Chief Executive had the confidence to sign the annual Statement on Internal Control on pages 43-46.

Having developed a comprehensive risk framework in support of the Risk Strategy and Policy, the Agency continued to utilise this as a business tool as part of integrated governance.

Further details relating to Risk Management can be found on page 23.

Audit Committee

The Audit Committee met on 5 occasions during 2005-06, providing the Board with an independent and objective review of its arrangements for the management of risk, financial systems, financial information used by the Agency and compliance with law, guidance and codes of conduct. The Committee advised the Board on the appropriateness of any statements required on the matter of Internal Control.

Further details on Management Assurance can be found on pages 23-24.

Remuneration Committee

The Remuneration Committee met on 4 occasions during 2005-06. The Committee determined the contracts of employment relating to the changes in designated senior staff in-year, including all terms and conditions of service, taking account of national guidance where appropriate; monitored and evaluated the performance of the designated senior staff; and determined the remuneration of the designated senior staff, ensuring that they were fairly rewarded for their individual contribution to the Agency, whilst having regard to affordability and to the provisions of any national arrangements where appropriate.

Further details can be found in the Remuneration Report on pages 34-37.

Register of Directors' Interests

The Secretary of State required the Agency to maintain a formal Register of Directors' Interests. The register was available at all Board meetings or on request via the Board Secretary. The Register included interests that were relevant and material to the NHS Board in terms of the individual Directors and of their close family or other associates who members of the public might reasonably think could influence their judgement.

The Register of Directors' Interests for 2005-06 were:

BASIL JEUDA (Chair of the Board, Chair of Remuneration Committee)

- Member of the Assembly body of the NHS Employers Organisation
- Step-daughter is a member of the NHS Pension Scheme

SUSAN ACHMATOWICZ (Non-Executive Director, Member of Audit and Remuneration Committees, and Risk Management Committee from August 2005)

- Director and major shareholder of Country Lanes Limited
- Member of the New Forest National Park Authority
- Non-Executive Director of British Waterways
- Chair of British Waterways Pension Fund Trustee Board

TONY GICK (Non-Executive Director, Vice-Chair of the Board, Member of Audit, Risk Management and Remuneration Committees)

- Provision of consultancy services to various NHS bodies (self-employed)
- In receipt of an NHS pension
- Daughter is an employee of Salford Royal Hospitals NHS Trust and a member of the NHS Pension Scheme

JOHN KING (Non-Executive Director, Chair of Audit Committee, Member of Remuneration Committee)

- Trustee Director of Abbey National Pension Funds
- Non-Executive Director of NHS Professionals
- Non-Executive Director of the Sector Skills Development Agency (SSDA)
- Non-Executive Director of the Environmental Landfill Tax Credit Scheme Regulator (ENTRUST)
- Chair of the National Occupational Standards Board
- Daughter is a member of the NHS Pension Scheme

ROSEMARY MOUNCE (Non-Executive Director, Member of Audit, Risk Management and Remuneration Committees)

- Pensions Technical Manager of Royal Sun Alliance (temporary contract from December 2003)
- Occupational Pensions Advisory Service (OPAS) Advisor (voluntary role)
- Member of the Benefits Council of the National Association of Pension Funds (NAPF)

- On the Editorial Advisory Board of Pensions World
- Husband is a Founding Partner of Effectech Limited (Gas engineering & monitoring consultancy) and on working parties of BSO/ISO on gas flowmeters

KARIN NORMAN (Non-Executive Director, resigned 6 July 2005, Member of Audit, Risk Management and Remuneration Committees)

- Director of Citigroup Global Markets Limited
- Vice President/Deputy Chairman (unpaid) of Raglan Capital Limited
- Pensions Trustee of ENB Pensions Scheme

ALAN STUTTARD (Chief Executive to 28 February 2006, Chair of Risk Management Committee)

- Member of the Policy Board of the NHS Employers Organisation

DAVE ADDY (Director of Operations and Member of Risk Management Committee up to 28 February 2006, Acting Chief Executive and Chair of Risk Management Committee from 1 March 2006)

- Wife is a member of the NHS Pension Scheme

IAN MERGA (Director of Corporate Services, Member of Risk Management Committee)

- Wife and Daughter are employees of the NHS Pensions Agency

SHARON SLACK (Director of Finance, IT & Partnership, Member of Risk Management Committee)

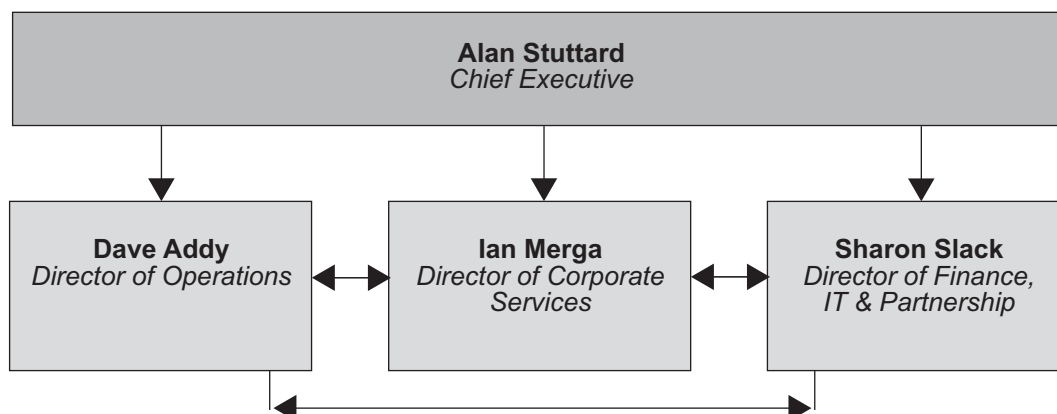
- No interests to declare

VAL BARKWORTH (Acting Director of Operations, Member of Risk Management Committee)

- Husband, Mother-in-law and Sister-in-law are members of the NHS Pension Scheme

EXECUTIVE STRUCTURE

Executive Team



Alan Stuttard resigned on 28 February 2006 and was replaced by Dave Addy as Acting Chief Executive from 1 March 2006. Val Barkworth (Assistant Director of Operations) replaced Dave Addy as Acting Director of Operations from 1 March 2006.

Further information on the composition of each of the Director's area of business can be found in the corresponding pages 15-33.

Setting the Strategic Direction

The organisation's strategic direction was set through the production of the Agency Corporate Plan 2004-07 and Business Plan 2005-06. The Business Plan was prepared based on agreed funding with the Arms Length Body Review Team/Department of Health.

Key Drivers for 2005-06

The Agency's key drivers for 2005-06, as identified in its Business Plan for the year, were:

- To improve the customer focus of the organisation by developing the links with our stakeholders, implementing the communications plan, and developing our customer services function.
- To improve the operational efficiency of the business through improved use of technology, effective performance management and sound use of resources.
- To implement the legislative and policy initiatives as they impact on the Pension and Bursary Schemes.

Performance Management

The Agency's Executive Team met regularly to review performance against its annual Business Plan and the Corporate Risk Register that was linked to the Business Plan objectives. Performance was reported at the Board meetings and Review meetings with the Senior Sponsor in the Department of Health.

The following sections detail the overall performance of the Agency and the key achievements and issues of each Directorate.

Performance 2005-06

Key Performance Objectives

In order to achieve the Agency's Vision:

“To support the objectives of the NHS by delivering high quality, cost effective pension and bursary services.”

6 key strategic objectives were identified:

1 – Service Delivery – We will deliver modern, high-quality, customer-focussed services to members, students, employers and other key stakeholders in a manner that is consistent and demonstrates value for money.

2 – Scheme Modernisation – We will actively participate in the development and modernisation of the NHS Pension Scheme in partnership with the NHS Confederation, employers and trade unions, in line with Government/Department of Health policy and legislation.

3 – Communications – We will develop and improve our communications both internally within the Agency and externally with employers, Scheme members, students and other stakeholders.

4 – Organisational Standards & Development – We will develop the organisation's standards, policies and procedures and encourage all staff to perform to the best of their ability through appraisal and by supporting continual personal and professional development within the overall framework of the Human Resource Strategy.

5 – Business Process Re-Engineering – We will modernise our processes and our operational infrastructure by reviewing our current ways of working, investing in technology and improving organisational efficiency, thereby creating capacity to accommodate growth and complexity in a changing environment.

6 – Partnership Working (Business) – We will work with our business partners to develop and improve our relationship, develop jointly our services to meet our and their needs, whilst ensuring that the integrity of the contract is maintained and business risk is managed effectively.

Structure of Objectives

Each of the 6 strategic objectives has a number of component objectives towards their achievement. For example objective 1: Service Delivery involves elements of financial management, operational efficiency, delivery to target and project management. This has meant close working between Directorates to ensure the achievement of the overall objectives. For 2005-06 the Agency set itself 20 individual objectives.

Detailed Performance Against Objectives

Each of the component objectives and the performance against them was assigned a status of 'achieved', 'partially achieved', 'not achieved', or 'deferred'. Each status has been reviewed and agreed by the Agency Board.

Performance Management Reporting

The Executive Team met regularly to review performance. From these meetings quarterly reports showing the performance against the Business Plan were produced for the Board, and were also used to update the Agency's Risk Registers, which were aligned to the business objectives.

Summary of Achievement against Agency Objectives 2005-06

The following table summarises the position of the 6 key objectives (detailed above), and the status of their component objectives:

	Status			
	Achieved ¹	Not Achieved ²	Partially Achieved ³	Deferred ⁴
Service Delivery	2		1	
Scheme Modernisation	2			
Communications	1			
Organisational Standards & Development	7		2	
Business Process Re-engineering	2			1
Partnership Working (Business)	1		1	
TOTALS	15	0	4	1

Notes on Status:

- 1 – Achieved – component objectives fully completed
- 2 – Not Achieved – target not achieved
- 3 – Partially Achieved – some component objectives completed but some will continue into 2006-07
- 4 – Deferred – agreed no further work required in year due to external constraints

The overall position in terms of status relates to:

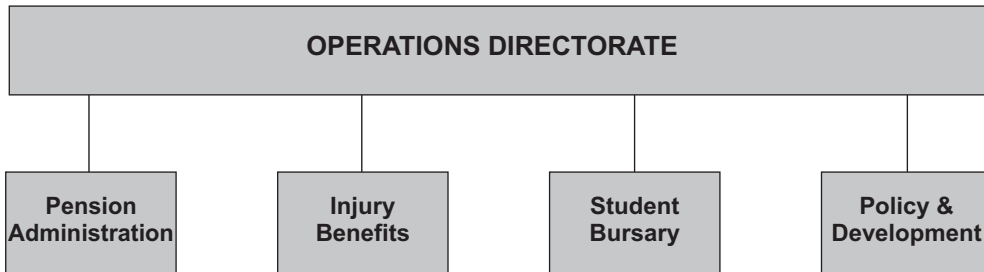
1 – Achieved (Financial targets met; production of Agency Annual Assurance Report to agreed deadline; production of Annual Report & Accounts to agreed deadline; production of Scheme Resource Accounts to agreed deadline; repositioning project on change programme completed; improved change programme project management and governance; PenServer implemented on time; Electronic Staff Record (ESR) implemented on time; legislative changes implemented on time; delivered Communications Plan for 2005-06; maintained and developed integrated corporate governance and performance management framework; effective transfer of staff and

governance to the NHS BSA; achieved Year 1 of the 3-year Information Management and Technology Plan; Training Plan based on business needs developed and delivered; input into legal and policy reviews, effective Contract Management by Stream Managers and escalation of significant issues via formal Contract Boards.)

3 – Partially Achieved (achievement of operational performance targets at year end by SGU, but not by Pensions; partial completion of Agenda for Change assimilation, and workforce planning activity being extended into 2006-07; review of contract with Envision completed for one stream only due to specification work relating to potential full contractisation.)

4 – Deferred (The transfer of the work of the General Social Care Council to the Agency was put on hold.)

Operations Directorate – Key Achievements & Issues



Scale of the Pension Administration

The Agency pension administration provides customer services to over 2 million NHS Pension Scheme members, covering 150 NHS trades and professions, with around 10,500 employers throughout England and Wales.

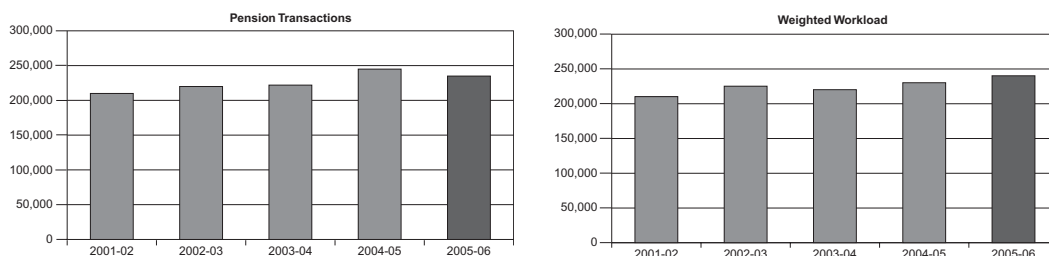
Pension Scheme membership

Pension Scheme membership rose slightly by 0.08% during 2005-06 as seen below. Details can be found in Annex A.

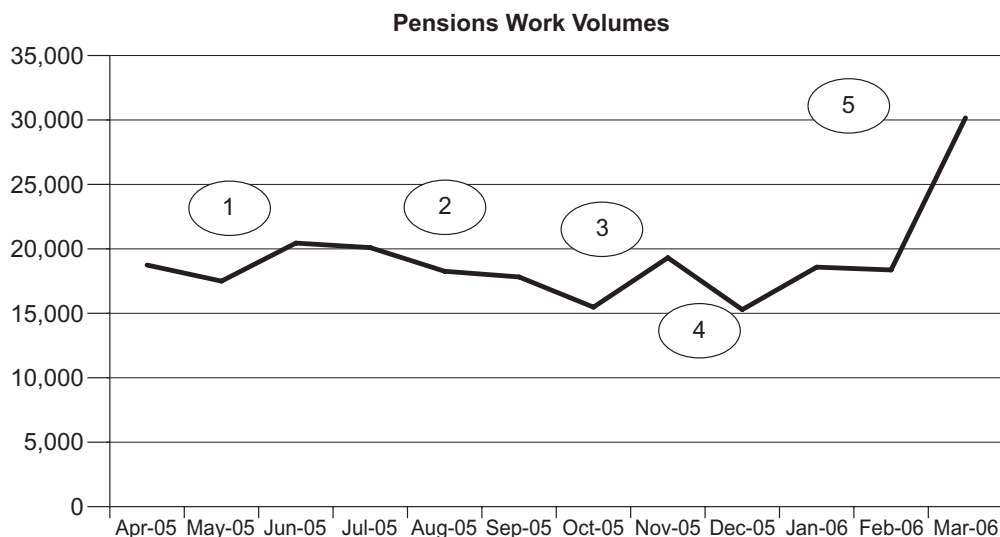


Pension work undertaken

The number of pension transactions (see Annex A for full list) decreased by 0.04% from the previous year. Because certain transactions take longer or are more complex than others, the Agency has a weighting attached to each of its areas of work. Despite the slight decrease in the volume of work, there was an increase in the Agency's weighted workload of 4.4% for the year:



Further detail on membership and transaction changes in year is at Annex A.



The Pension transactions within the chart above excludes the Greenbury Exercise, which is reported on separately below.

The chart indicates the improving performance during the first quarter of the year (1), levelling out during the second quarter (2), with a rise while administering the Zero Backlog Plan (3) ahead of the implementation of PenServer. Following the second phase of PenServer delivery on 3 October 2005, performance dipped (4), owing to the training, transition and consolidation, to pick up again during the recovery plan from January 2006. The year-end position (5) illustrates the performance following the recent Finance Act (FACT) delivery. This upturn was attributed mainly by an increase in awards processed.

Other factors impacting transactions on Pension Centres were staff absences, cessation of overtime working, attendance of all staff at Stress Awareness sessions, Institute of Leadership and Management training for Team Managers and FACT training, transition and delivery, including increased backlogs of sub-awards awaiting decision.

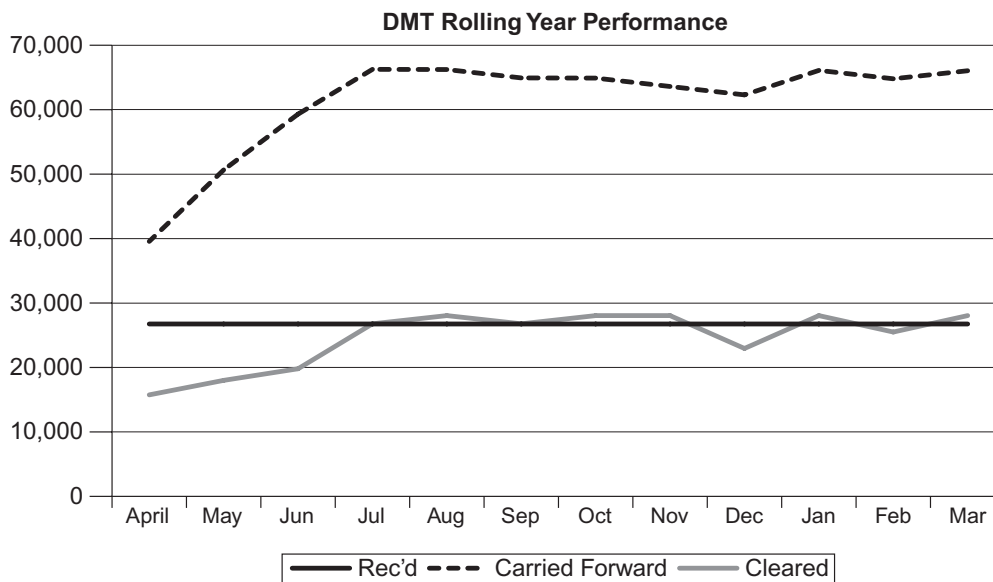
Part-time Access Project

There was a strong performance in the Part-time Access Project, with cases cleared matching or exceeding cases received.

Data Maintenance

The continued rollout of the new Electronic Staff Record (ESR) in the wider NHS has resulted in a significant rise in data errors, causing the Agency considerably more work than planned. This is impacting on the ability to progress the Data Cleanse Project and will impact on the Agency's ability to send out Annual Benefit Statements. It has been agreed with the ESR Project to fix the errors in data transfer to the Agency. If this goes to plan the problem should be contained.

The cases cleared against received has picked up throughout the last year to a point where it is now at or slightly above the level of cases received



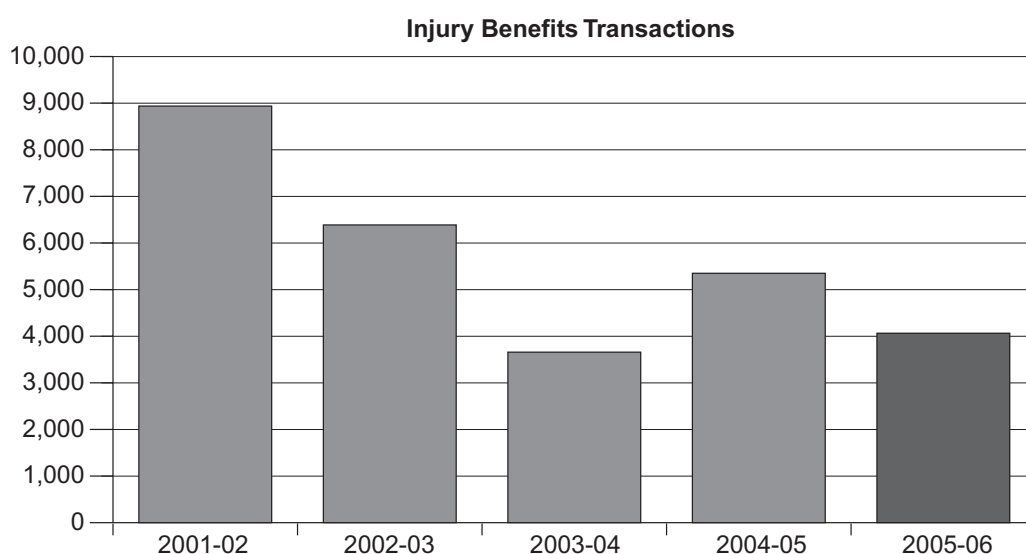
Greenbury Exercise

Performance was poor in terms of the Agency's first Greenbury processing exercise, which was completed early in 2005-06. This resulted in set up of a structured project team to manage this year's exercise, with extensive quality control systems in place. The project is on track for completion by the end of May 2006.

Injury Benefits (IB)

During 2005-06, the use of the new application form and letters was progressed to continue improvements in customer service in this area.

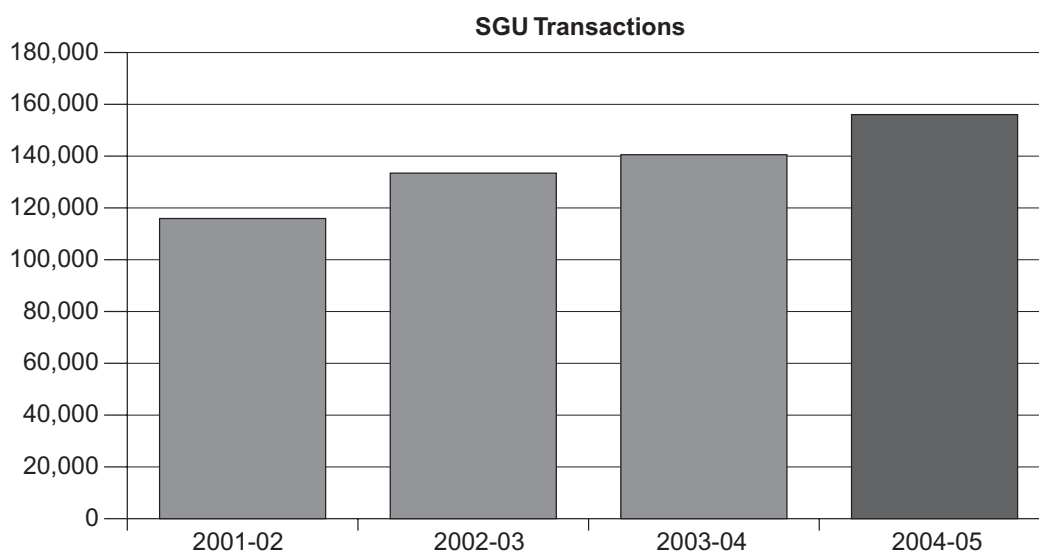
The graph below indicates the continuing decrease in IB transactions. This overall decrease has been due to a reduction in claims resulting from employers having improved their duty of care for staff. The increase last year was due to the bi-annual checks of Social Security benefits for re-assessment purposes.



Student Bursary

The NHS Student Grants Unit (SGU) provides a service to over 88,000 students in training on NHS funded health professional courses, through 170 Higher Education Institutions (HEIs) in the United Kingdom. This was an increase from 2004-5, when a service was provided to around 86,000 students. (Further details on Students in payment can be found in Annex A).

The following table shows the volumes of transactions for the last four Academic Years (1 September – 31 August). 2005-06 has not been included, as the full academic year does not finish until 31 August 2006.



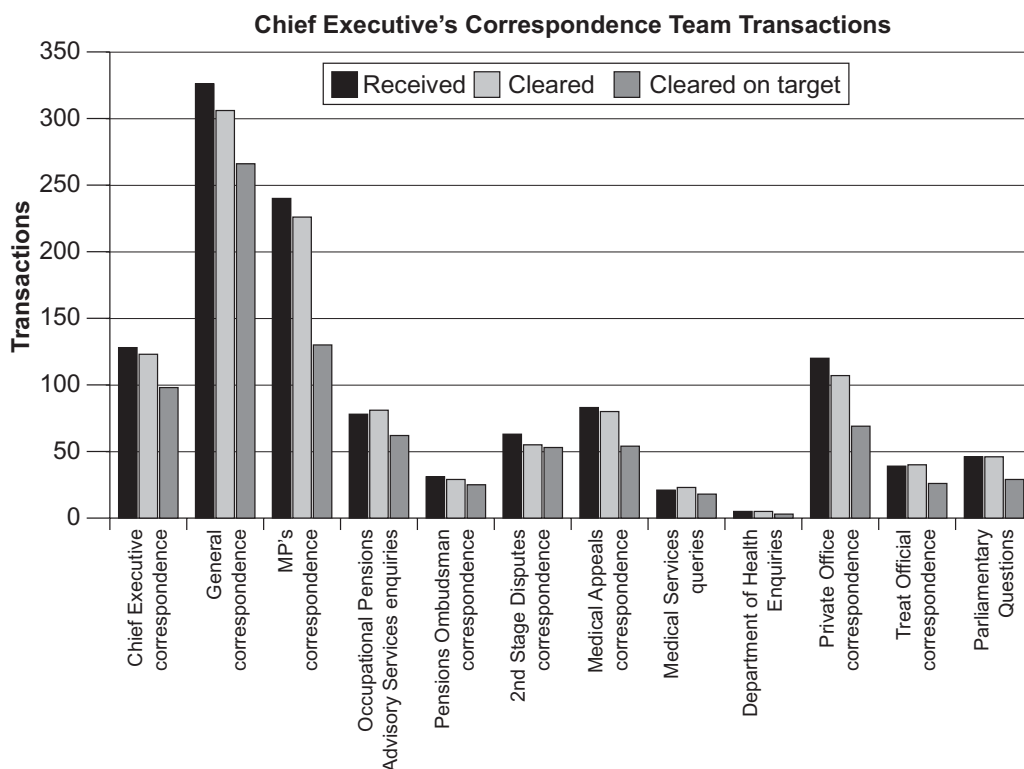
A breakdown of the transactions can be seen in Annex A. There was an increase in transactions due to the increase in student applications generally and the introduction of Childcare Allowance at the beginning of the academic year.

Key issues during 2005-06 included:

- A poor performance to speed of response in SGU, resulting in an increase in the number of Parliamentary and MP questions and some reputational damage in the Health Service press. To address this, the Agency has increased resources using temporary staff to cope with seasonal peaks of work and has developed customer services protocols.
- In order to handle the seasonal student bursary processing activity successfully, the Agency had planned to extend the processing window, but this was seriously impacted by potential late policy changes on Age Discrimination and the Agency was still awaiting a decision on Bursary Rates.
- The regularity issue of the SGU filing system resulted in qualification of the Student Bursary Accounts for 2004-05 by the National Audit Office (NAO). The NAO Management Letter for 2004-05 recognises that this is likely to continue as a qualification, as full rectification cannot be completed before the next NAO Audit.

Complaints, Disputes and Senior Correspondence

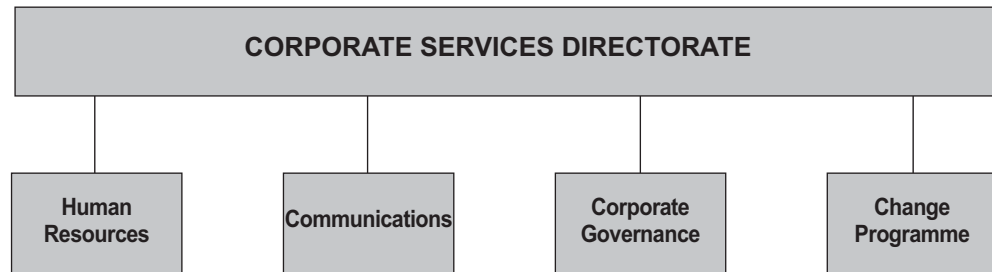
In addition to general correspondence, the Agency receives a range of specific correspondence from the sources listed in the table below:



In some categories, 'cases cleared' exceeds 'cases received' as some cases received in 2004-05 were completed in this year.

There are a number of internal and statutory targets for this range of work. Overall performance for the year was a 74% clearance against these targets. 96% of statutory targets, 78% of external targets and 66% of internal targets were achieved. During the year, it was recognised that additional resources and expertise were required in terms of covering the workload of the small Chief Executive's Correspondence Team. The work was moved into the Operations area to increase the availability of resource and expertise, and this should lead to a turnaround in the achievement of targets in 2006-07.

Corporate Services Directorate – Key Achievements & Issues



Human Resources

The Agency employed 386 staff as at 31 March 2006 which, as a result of a number of flexible working patterns available to staff, amounts to 353.91 whole time equivalent posts. This number has fallen on the previous year due to the restriction on recruitment pending the move to the NHS BSA. Employment agency/contract staff have supplemented resources in terms of development and short-term projects.

The staff cover a wide range of functions in the running of the Agency, with most involved directly with the administration of the Pension and Bursary Schemes. The Agency is one of the major employers in Fleetwood – with many staff living in the immediate vicinity.

Responsibility for the Agency's HR function moved to the NHS BSA Director of HR from 1 March 2006.

Human Resources – Terms and Conditions of Employment

As a result of the transition from a Department of Health Executive Agency to Special Health Authority, and the addition of the Student Grants Unit, the Agency's staff are on a range of NHS and TUPE protected civil service terms and conditions as follows:

1. Staff whose conditions of employment are covered by TUPE arrangements and Civil Service conditions (70% of the number of Special Health Authority's employees);
2. Staff whose conditions of employment are covered by NHS arrangements (30% of the number of Special Health Authority's employees);

Human Resources – Agenda for Change

Agenda for Change is the new NHS pay and progression system, which is being introduced across all NHS organisations. During 2005-06, the Agency continued the process of job evaluation and matching for staff on NHS terms and conditions (30% of the workforce) on to the appropriate NHS Agenda for Change terms. This has been an excellent example of partnership working with Unions and staff, with a structure of joint working arrangements in place.

The target set by the Department of Health for full assimilation of all relevant staff onto the new system was 31 March 2006. The Agency was unable to meet this target due mainly to issues with the payroll provider for these staff migrating to the Electronic Staff Record (ESR).

Human Resources – Employee Relations

The Trade Unions worked closely with the Agency on a number of issues during the year. The partnership approach was particularly strong in the implementation of Agenda for Change and the commencement of the Agency's Efficiency Project.

Due to the range of staff terms and conditions, both the Public and Commercial Services Union (PCS) and Unison are the recognised staff representatives in the NHS Pensions Agency. Making this arrangement work has involved significant input by both Unions and the Agency's managers.

The Agency holds a formal industrial relations council meeting every 2 months and a range of consultation groups and forums operate in the intervening periods.

Human Resources – Equal Opportunities

The Agency is committed to a policy of equal opportunity for job applicants and staff. The policy includes what is expected of staff in their dealings with colleagues and customers, covering the application of employment practices, policies and procedures that positively value diversity and aim to ensure that all employees, potential employees and customers receive fair, equitable and consistent treatment.

Human Resources – Disability Discrimination Act (DDA) compliance

Various works were undertaken during 2005-06 to ensure DDA compliance, and this has extended to works to replace both of the lifts within the property.

Human Resources – Training and Development

Staff are our key resource, using their acquired detailed knowledge of both the NHS Pension and Bursary Schemes and our customer base. Under our Investor in People status, our commitment is to train and develop staff to their full potential in order to improve service and efficiency.

During 2005-06 Agency training and development needs were identified and prioritised. As well as on-section training on the Pension Centres and general induction training for new starters, there has been attendance at a wide range of training courses. This includes: Institute of Leadership & Management Level 3 Certificate courses; presentation skills; pc packages; professional IT, Information Security, Finance and project management; health and safety awareness; absence management; performance appraisal; Data Protection Act and Freedom of Information Act and training for the implementation of the PenServer administration system.

Human Resources – Health and Safety (H&S)

The Agency complies with the reporting standards of the Health and Safety Commission.

The Agency has a Health and Safety Policy and Procedures based on Government best practice and the relevant H&S legislation, in particular, the Management of Health and Safety at Work Regulations 1999, and the 1992 Health and Safety Regulations. In addition to the legislative requirements, the Policy and Procedures incorporate local issues and emergency procedures specific to Hesketh House. Under this framework we have a Health and Safety Committee comprising representatives from across the Agency and Envision.

Communications

As part of a key driver to improve communication links with stakeholders and following the approval of the Agency's Communications Strategy and Plan in 2004-05, the key areas of activity for the section during 2005-06 were:

- Informing 1.7m NHS employees of legislative change via pay slip inserts, Practitioner leaflet, Chief Executive Officer letter, Booklets update and web estimator, plus new pages on the internet site.
- Ongoing review and refresh of Scheme publications as they went to re-print.
- Tendering process carried out for the Employing Authority (EA) Guide Refresh – decision awaited on resource allocation.
- Website Refresh completed.
- Redesigned Intranet and continuing development.
- Ongoing focus groups with Higher Education Authorities (HEIs) and Employing Authorities (EAs) and web questionnaire undertaken as part of the research programme.
- Issued 2 Employer Bulletins to brief senior NHS decision-makers.
- Held 2 Pension Centre Open Days and a further 3 incorporated in ESR days for employers.
- Attended 7 NHS-related conferences covering almost 15,000 visitors.
- Issued the Annual Pensioner Newsletter.

CORPORATE GOVERNANCE

Performance Management

Following on from the work in 2004-05 to optimise performance measurement arrangements for the Agency, use of a Balanced Scorecard methodology has been developed. Monthly and quarterly reports to the Board have been provided in a format covering the four Balanced Scorecard criteria, and this work will be developed further across the Pensions Division in 2006-07.

Risk Management

The Agency's Corporate Risk Register was aligned to the Agency's 6 key objectives. The register contained all the risks against full achievement of each of the Agency's objectives. In addition, it identified generic risks and included sections on Terrorism, Disasters, Business Resource Continuity, Fraud and Reputation.

Each principal risk was regularly reviewed to update the current risk rating, key issues, measures, planned actions and outlook. The close link to the business plan was a key part in the Agency's integrated governance. Each principal risk and its status was represented on a risk dartboard, with the supporting information on each risk detailed in the accompanying register. A further development in 2005-06 was use of risk 'appetite' based on the prioritisation of actions to manage risks to an acceptable level on all aspects of business activity.

The Agency's Corporate Risk Management priorities during 2005-06 were:

- Transition to the NHS Business Services Authority;
- Agenda for Change;
- Lack of supporting documentation on Bursary Awards;
- Modernisation of the NHS Pension Scheme and associated policy and legislative requirements;
- Legal and Policy Review of Injury Benefits and some areas of Pensions;
- Communications – Internal and External;
- IT Systems Developments, particularly in relation to PenServer implementation;
- Business Continuity Planning;
- Financial Management, particularly in relation to Scheme Resource Accounting.

Management Assurance

To support the overall Corporate Governance framework, the Agency utilised 4 core assurance standards during 2005-06: Governance, Risk Management, Planning & Delivery and Resource Management.

Directors were asked to sign-up to these standards at the start of the year as part of their overall accountability responsibilities for 2005-06. Directors recorded whether the necessary controls were in place within their business areas to ensure that standards were met and that risks to the achievement of the Agency's objectives, within the resources allocated, were well managed.

This information was used to support the Chief Executive's Statement on Internal Control, which is shown on pages 43 to 46 of the financial statements. The significant internal control issues identified during 2005-06 were:

- Lack of supporting documentation on Bursary Awards;
- Erroneous implementation of Regulation T8 within the Pensions regulations.

In respect of each of the areas listed above, the following action is being taken:

The Agency acknowledged that there was a significant internal control weakness with regard to the documentation to support the payment of Bursary awards. A fully controlled project has been put in place to ensure that wherever possible the missing documentation is obtained and placed on file to support historical payments. In addition to the new controls, which have been implemented, scanning of documentation has been introduced which will significantly reduce the risk of payments being made without the relevant supporting documentation. The qualification to the Accounts resulting from this will be likely to remain in place, as the Agency has been unable to resolve all the missing document issues for students who have left.

As a result of the "NHS Amendment Regs 2000" a new regulation "T8" was added to the NHS Pension Scheme regulations, which entitled Scheme members to statutory interest on scheme benefits paid more than a month after the normal due date. The Agency failed to implement this provision. Counsel's advice is currently being sought on this issue.

The Board and sub-committees have been kept fully updated on issues and progress.

PENSION AND BURSARY MODERNISATION

NHS Pension Scheme Modernisation Programme – Scheme Development and Consultation

The large-scale project to develop the first new NHS Pension Scheme since its inception in 1948 continued during 2005-06. The initial target for this was by 2008. The NHS Employers Organisation has been developing proposals for a new Scheme over the last 3 years in consultation with Trade Unions. The Agency has played a lead role in making proposals for and the development of a new Scheme, as implementation will be the responsibility of the Agency.

Pensions Modernisation Change Programme

2005-06 was the first year of a major 3-year change programme for the Agency. This includes a range of changes to the Pension and Bursary Schemes driven by legislation, Ministerial/Government policy, compliance and governance and procedural/system changes in order to demonstrate value for money and reduce costs.

The headlines since mobilisation of the programme in August 2005 were:

- October 2005 Implementation successfully saw the move to PenServer as the mainframe was replaced and decommissioned. The Small Change Team have worked on issues coming out of the implementation.
- Electronic Staff Record (ESR) phase 1, which addressed the delivery of an interface so that data received from the ESR project could be uploaded into the existing legacy systems, was also delivered to schedule. ESR2 next steps will incorporate this functionality into PenServer.
- The Annual Benefit Statement (ABS) pilot will be ready for release in July 2006. This will be a key enabler for the New Scheme Options exercise.
- Despite working to tight deadlines and changes from HMRC, the programme has delivered ahead of schedule the functionality that complies with the Finance Act 2004-05. Further support using an effective communication campaign via booklets, payslip inserts and website tools, has ensured that operational queries relating to A Day have allowed processing to continue as the programme moved forward.
- The Programme has implemented all of its Year 1 key deliverables and ongoing planning will help achieve greater efficiencies in Years 2 and 3.

NHS Bursary Scheme Modernisation

Student Grants Unit

A Policy and Legal review commenced in 2004-05, focussed on streamlining the current Scheme in line with discrimination legislation and simplifying policy where possible. This has become part of the wider Bursary Scheme modernisation programme being taken forward into 2006-07.

General Social Care Council Bursary Work

The Agency had planned to transfer the management, processing and administration of the Social Work Bursary Scheme from the General Social Care Council in London to the Agency in Fleetwood. This was put on hold, awaiting further decisions by the NHS BSA.

Business Process Re-Engineering

Following on from the review of and improvements to the business processes across the Student Bursaries in 2004-05, further improvements have been made. These include provision of a secure area on the SGU website for Higher Education Institutions and holding regular Focus Group meetings with them.

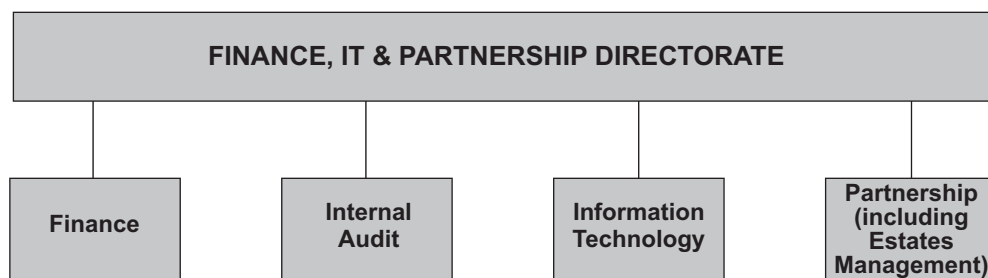
IT System Development

During 2005-06, amendments have continued to be made to the existing Student Bursary IT systems to improve efficiency and speed of response to student applications.

Records Management

During 2005-06, further planned work was undertaken in response to the issues identified in the audit of the 2004-05 Accounts in terms of lack of supporting documentation for Bursary awards. This included the introduction of a file scanning system.

Finance, IT & Partnership Directorate – Key Achievements & Issues



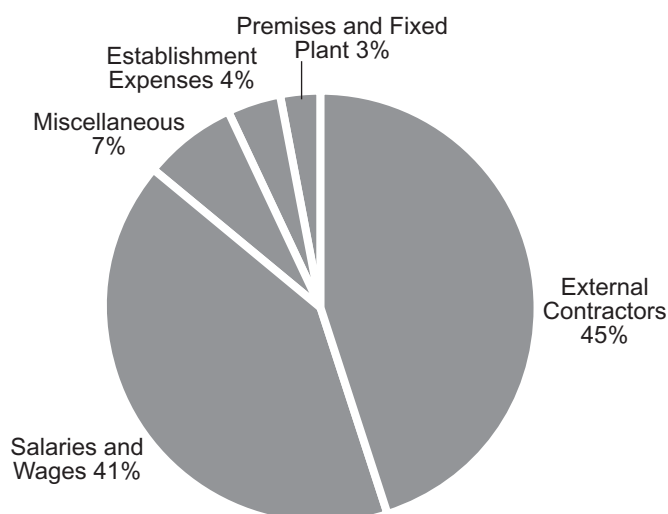
Finance – Outturn

The Agency met its financial targets in the financial year by remaining within its Cash, Revenue and Capital resource limits.

Better Practice Payment Code

As an NHS body the Agency is required to comply with the Better Payment Practice Code target to pay all non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed. Overall, the Agency has improved compliance levels with those reported in 2004-05. Compliance with the Code is shown in Note 2.3 to the Accounts.

Allocation of Spend



The Agency's total spend during 2005-06 was £27,549,753.41. This does not include Student Bursary payments of £432,704,726.25.

Capital

The Capital allocation for the year was £850,000, and expenditure of £850,000 reported. This has been spent on a number of projects to refurbish the building and amenities, including replacement of lifts and file scanning hardware and software for the Student Grants Unit.

External Auditors

The Agency's External Auditor for 2005-06 was the National Audit Office. The Accounts have been audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000 (Audit of Special Health Service Bodies) Order 2004 which came into effect on 12 July 2004.

The cost of external audits during 2005-06 was £55,000 for the audit of the NHS Pensions Agency Administration and Bursary Scheme Accounts, and £67,000 for the NHS Pension Scheme Resource Accounts.

Audit Assurance

So far as the Accounting Officer is aware, there is no relevant audit information of which the entities auditors are unaware; and 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 entities auditors are aware of that information.

Audit of Accounts

In 2004-05 the consolidated administration and bursary accounts of the Agency received a true and fair view, however under the regularity test the National Audit Office issued a qualified opinion arising from limitation in audit scope on the accounts, due to lack of documentation to support payments made under the NHS Bursary Scheme. As a result, the National Audit Office could not verify that the relevant payments were in accordance with the rules of the Scheme.

During 2005-06, the Agency has implemented new procedures and improved working practices to ensure that all relevant documentation is retained. Additionally, new file scanning and records management technology has been implemented to increase document accessibility and efficiency. The second phase of this development will provide further benefits including workflow management.

In response to the NAO qualification, the Agency has conducted a review of 118,000 student files to identify those with insufficient documentation, and recreated these wherever possible. However many of the cases affected concern students who have now left training, and consequently in some cases the Agency has been unable to obtain sufficient documentation to enable the NAO to remove the scope limitation for 2005-06.

Information Management & Technology (IM&T) Strategy

The IM&T Strategy is supported by the 3-year IM&T Action Plan and subject to full resourcing, the team is on course to deliver the Strategy. During 2005-06, the delivery of modern, integrated, robust systems and the move away from the mainframe to a server environment and on to a relational database was achieved. Significant improvements to information governance were made, business continuity testing was successfully completed and the foundations for implementation to records and information management were laid.

A review of the strategy and supporting action plan is planned for the second quarter of 2006-07.

BS7799/ISO17799 Certification

The Agency is working towards BS7799 / ISO17799, the standard setting out the requirements for an Information Security Management System. An action plan was developed after an initial health-check in 2004-05 and has been progressed further in 2005-06. Remedial work has included upgrading of server rooms and completion of testing of the Agency's Business Continuity Plan.

Emergency Preparedness – Business Continuity Plan (BCP)

During 2005-06, as agreed by the Risk Management Committee, the incremental testing of the alternative site facilities in the event of a disaster at Hesketh House continued and was completed successfully. The BCP plan is a joint plan with our contractor, meets best practice requirements under BS7799 and complies with the key elements of 'Handling Major Incidents: An Operational Doctrine' and associated guidance.

Information Governance

The Risk Management Committee agreed in 2004-05 to an external Information Audit and this was progressed during 2005-06. The Information Governance framework was reviewed and significant improvements made on information management and security aspects, which resulted in a move from a red to green status on the NHS Information Governance Toolkit benchmarking exercise. Key BS 7799 remedial work was also completed eg upgrading the server rooms, and completion of the Business Continuity Plan testing off site. Further work on developing and implementing policies, plans and procedures is planned for 2006-07 to achieve compliance with the standard.

Contract Management/Outsourcing Programme

All services covered by the contract with Paymaster have been actively managed by respective Service Managers with any significant issues being escalated through the formal Contract Boards.

The Agency and Paymaster agreed in 2004-05 that it was the right time to carry out a review of the service deliverables within the contract. The review for the Retained Services stream was completed and the appropriate Change Control Note agreed. As part of the strategic direction of the NHS Business Services Authority to become a commissioner rather than a provider of services, the Agency has begun to look at the option for full contractorisation of its services. This is already included within the current contract with Paymaster, who has the first option to provide a bid. In view of the prospective full contractorisation, it was agreed that all other service streams would be reviewed as part of the specification process, which will go into 2006-07.

Environmental Matters

Due to the nature of the work undertaken at the Agency, there is not a significant adverse environmental impact on the surrounding environment. However, various initiatives, including the development of an Environmental Management System (EMS) have been initiated during the year. An Environmental Working Group was set up to consider what environmental initiatives could be implemented and this activity will continue into 2006-07, with the launch of a range of various energy efficiency campaigns. These include energy savings initiatives, water conservation initiatives, recycling points for aluminium cans and plastic cups, recycling of toner cartridges and fluorescent lights, introduction of green transport campaigns and promotions and any wood materials that have been used in refurbishment projects during 2005-06 have been sourced from sustainable forests.

Looking Ahead To 2006-07

Business Priorities

Depending on the agreed funding from the NHS BSA and the Department of Health, key activity for the Pensions Division in 2006-07 will be:

Service Delivery

We will deliver modern, high quality, customer focused services to members, students, employers and other key stakeholders in a manner that is consistent and demonstrates value for money.

We will do this by:

- Delivering a service that consistently meets if not exceeds all agreed operational performance targets;
- Reducing the Unit Cost of delivering our services whilst maintaining service standards;
- Introducing more focus on the quality of the service we provide through the development of accuracy targets and monitoring performance against these;
- Developing more focussed and efficient processes for dealing with customer enquiries across all functions by telephone, email or in written correspondence leading to improved customer access to our services.

Scheme Modernisation

We will actively participate in the development and modernisation of the NHS Pension Scheme in partnership with the NHS Employers organisation, employers and trade unions in line with Government/Department of Health Policy and legislation.

We will do this by:

- Completing the outstanding issues from the previous PenServer implementation phase as a matter of priority.
- Prioritising development effort that we believe will lead to operational efficiencies in the year.
- Carrying out effective and timely identification of service requirements required from policy and legislative changes in particular scheme modernisation.

Communications

We will develop and improve communications externally with employing bodies and the NHS Employers organisation, Scheme Members, students and other stakeholders and internally within the Pensions Division.

We will do this by:

- Improving our customer relationship management of NHS employing authorities to provide timely and accurate staffing data leading to simplified and reduced cost pension administration.

- Improving our customer relationship management of HEIs to ensure they fulfil their obligations to provide us with timely information leading to a faster and more accurate service to students.
- Improving our customer relationship management of the Department of Health to ensure we receive clear and timely policy direction.
- Better managing our complaints system to have a better understanding of the number and nature of complaints received and reduce the number of complaints moving to further stages.

Organisational Standards & Development

We will develop the organisation's standards, policies and procedures and encourage all staff to perform to the best of their ability through appraisal and continuous personal and professional development within the overall framework of the Human Resource Strategy.

We will do this by:

- Producing a business plan focussed on key performance indicators and communicating these priorities to all staff.
- Supporting this with a detailed, accurate and transparent performance measurement and reporting system.
- Aligning our performance management system to industry standards where appropriate ie ISO 9000.
- Giving higher priority to the existing performance appraisal system ensuring it is a meaningful reflection of performance and stretches all staff to greater achievements.
- Introducing a revised Reward and Recognition Policy linked to productivity and quality.

Business Re-engineering

We will modernise our business processes and our operational infrastructure by reviewing current ways of working, investing in technology and improving organisational efficiency thereby creating capacity to accommodate growth and complexity in a changing environment.

We will do this by:

- Creating a more flexible workflow system that allows for more efficient organisational design and work processing.
- Restructuring the management and support service structures to ensure a lean and efficient organisation that is fit for our current and future role.
- Re-designing our organisational structure to allow for the functionalising of work where this will lead to efficiency savings and improved accuracy and consistency.
- Ensuring that functions carried out by others on which our service delivery depends are reviewed and developed into service level agreements or other such control mechanisms as may be appropriate.

- Introducing further automated processes or file management procedures across all functions leading to improved efficiency and increased service against targets for customers.

Partnership Working

We will work closely with our business partners to develop and improve relationships, develop jointly our services to meet our and their needs whilst ensuring that the integrity of the contract is maintained, and business risk is managed effectively.

We will do this by:

- Carrying out a project to explore the value for money potential of different models of full contractorisation and scope out in detail the services to be outsourced in a structured and transparent manner in accordance with Prince2 principles.
- If appropriate in terms of value for money, driving forward the move to full contractorisation in accordance with the wider strategic objectives of the Business Services Authority on a time line that ensures a quality solution is provided.
- Improving the transparency and accuracy of the existing contract performance management system against all contract streams leading to more effective reporting of contract performance and ensuring value for money is achieved.
- Producing an Options Appraisal covering all potential service delivery models that could provide the required value for money savings to the NHS BSA.

Remuneration Report

Section 234B and Schedule 7a of the Companies Act, as interpreted for the public sector requires NHS bodies to prepare a Remuneration Report containing information about the Director's remuneration. In the NHS, the Remuneration Report covers the 'senior managers' of the NHS body. For the NHS Pensions Agency, the 'senior managers' (ie those having authority or responsibility for directing or controlling the major activities of the NHS body) were the Chief Executive, Executive Directors, the Board Chair and Non-Executive Directors.

Appointments

The Chair and Non-Executive Directors were appointed by the NHS Appointments Commission for 4 years from 1 April 2004. The Chief Executive and other Executive Directors were appointed through open competition.

Senior Managers of the NHS Pensions Agency

NAME	TITLE	DATE APPOINTED FROM	REMUNERATION COMMITTEE MEMBERSHIP
Basil Jeuda	Chair	1 April 2004	Chair
Tony Gick	Non-Executive Director	1 April 2004	Member
Susan Achmatowicz	Non-Executive Director	1 April 2004	Member
John King	Non-Executive Director	1 April 2004	Member
Rosemary Mounce	Non-Executive Director	1 April 2004	Member
Karin Norman	Non-Executive Director	1 April 2004 (Resigned July 2005)	Member
Alan Stuttard	Chief Executive	1 June 2004 (Resigned February 2006)	In attendance
Dave Addy	Director of Operations	5 July 2004	
	Acting Chief Executive	1 March 2006	
Ian Merga	Director of Corporate Services	1 June 2004	
Sharon Slack	Director of Finance, IT & Partnership	11 August 2004	
Val Barkworth	Acting Director of Operations	1 March 2006	

Changes in year

In July 2005, one Non-Executive Director resigned and was not replaced due to the impending move to the NHS Business Services Authority. Later in the year, the Board made relevant appointments following the Chief Executive's resignation in February 2006. The Chief Executive was replaced on a temporary basis by one of the Executive Directors and an Assistant Director was appointed on a temporary basis as an Executive Director. The remaining Non-Executive Directors and Executive Directors were in post for the full year 1 April 2005 – 31 March 2006.

All senior managers were provided with advanced notice of the dissolution of the Agency Board, which took place on 31 March 2006.

Details of the Salary and Pension entitlement of senior managers are on pages 36 and 37.

The Remuneration Committee

During 2005-06, the Committee determined the contracts of employment relating to the changes in senior staff in year, including all terms and conditions of service and taking account of national guidance where appropriate; monitored and evaluated the performance of the designated senior staff via the senior manager annual appraisal system provided by the NHS Appointments Commission; and determined the remuneration of the designated senior staff, ensuring that they were fairly rewarded for their individual contribution to the Agency, whilst having regard to affordability and to the provisions of any national arrangements as appropriate.

Nick Scholte
Chief Executive NHS BSA
7 July 2006

Salary and Pension Entitlement of Senior Managers

a. Remuneration

	Name and Title	To/From	2005-06 salary in £5k bands £000	2004-05 salary in £5k bands £000
Executive Team				
AG Stuttard	Chief Executive	From 1.6.04 to 28.2.06	90-95	75-80
DM Addy	Director of Operations	From 5.7.04 to 28.2.06	65-70	45-50
DM Addy	Acting Chief Executive	From 1.3.06	5-10	0-5
SR Slack	Director of Finance, IT and Partnership	From 11.8.04	70-75	40-45
IR Merga	Director of Corporate Services	From 1.6.04	65-70	50-55
V Barkworth	Acting Director of Operations	From 1.3.06	0-5	0-5
Non-Executive Team				
BS Jeuda	Chairperson	From 1.4.04 to 31.3.06	25-30	25-30
K Norman	Non-executive	From 1.4.04 to 6.7.05	0-5	5-10
S Achmatowicz	Non-executive	From 1.4.04 to 31.3.06	5-10	5-10
A Gick	Non-executive	From 1.4.04 to 31.3.06	5-10	5-10
RA Mounce	Non-executive	From 1.4.04 to 31.3.06	5-10	5-10
J King	Non-executive	From 1.4.04 to 31.3.06	5-10	5-10

As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of Non-Executive members.

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the Pension Scheme benefits accrued by a member at a particular point in time. The benefits are valued at the members' accrued benefits and any contingent spouse's pension payable from the Scheme. A CETV is a payment made by a pensions scheme or arrangement to secure pension benefits in another pension scheme or arrangement, when the member leaves the scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pensions scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figure, and from 2004-05, other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS Pension Scheme. They also include any additional pension benefit accrued to the members as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

b. Pension Benefits

Name/Title	To/From	Real increase in pension and related lump sum at age 60 (bands of £2500)	Total accrued pension at age 60 at 31 March 2006 and related lump sum (bands of £5000)	Cash equivalent transfer value at 31 March 2006	Cash equivalent transfer value at 31 March 2005	Real increase in cash equivalent transfer value
		£000	£000	£000	£000	£000
AG Stuttard Chief Executive	From 1.6.04 to 28.2.06	0-2.5 Plus Lump Sum 5-7.5	30-35 Plus Lump Sum 100-105	499	445	43
DM Addy Director of Operations Acting Chief Executive	From 5.7.04 to 28.2.06 From 1.3.06	17.5-20 Plus Lump Sum 57.5-60	20-25 Plus Lump Sum 60-65	262	8	254
SR Slack Director of Finance, IT and Partnership	From 11.8.04	0-2.5 Plus Lump Sum 5-7.5	20-25 Plus Lump Sum 60-65	289	249	33
IR Merga Director of Corporate Services	From 1.6.04	0-2.5 Plus Lump Sum 2.5-5	20-25 Plus Lump Sum 60-65	276	249	21
V Barkworth Acting Director of Operations	From 1.3.06	0-2.5 Plus Lump Sum 0-2.5	10-15 Plus Lump Sum 40-45	184	161	19

Annex A: Annual Transactions

Pension Scheme Membership (Financial Year – 1 April to 31 March)

At 31 March	2001-02	2002-03	2003-04	2004-05	2005-06	Change 2005-06 from previous year
Contributors	1,124,678	1,168,709	1,213,932	1,260,939	1,263,349	+2,410
Pensioners	473,380	488,889	503,793	520,167	536,407	+16,240
Preserved Benefits	304,383	334,697	357,411	373,157	356,303	-16,854
Total	1,902,441	1,992,295	2,075,136	2,154,263	2,156,059	+1,796
Increase	4.3%	4.7%	4.2%	3.8%	0.08%	

'Contributors' are employees of the NHS who pay money from their salary into the NHS Pension Scheme.

'Preservees' are those who have at some point paid into the Scheme, have not taken a refund, and whose record is being maintained until they will receive a pension on retirement.

'Pensioners' are those currently in receipt of pension benefits.

Students in Payment (Academic Year – 1 September to 31 August)

	2001-02	2002-03	2003-04	2004-05	Change 2004-05 from previous year
Number of Students in Payment	78,964	84,449	86,735	88,499	+1,764
Increase		6.9%	2.7%	2.0%	

(NOTE: 2005-06 has not been included as the full academic year does not finish until 31 August 2006)

Student Grants Unit Transactions
(Academic Year – 1 September to 31 August)

Students Grant Unit	2001-02	2002-03	2003-04	2004-05	Change 2004-05 from previous year
Degree assessments	20,395	22,031	24,002	26,314	+2,312
Diploma assessments	45,478	53,102	54,991	55,658	+667
Disabled Student Allowance applications	1,303	3,595	5,346	6,691	+1,345
Medical and Dental applications	1,035	5,133	6,971	7,655	+684
Practice Placement Costs	40,900	42,224	41,367	43,897	+2,530
Withdrawal calculations	5,682	6,480	6,813	7,899	+1,086
Bursary extension calculations	1,114	868	1,034	1,397	+363
Childcare Allowance*	N/a	N/a	N/a	6,517	
TOTALS	115,907	133,433	140,524	156,028	+15,504
Increase		15.1%	5.3%	11.0%	

* Childcare Allowance was introduced at the beginning of the Academic Year 2004-2005

(NOTE: 2005-06 has not been included as the full academic year does not finish until 31 August 2006)

Pension Transactions and Weighted Workloads
(Financial Year – 1 April to 31 March)

	2001-02	2002-03	2003-04	2004-05	2005-06	Change 2005-06 from previous year
On-Time+ Late Awards	26,215	28,098	29,635	31,201	32,881	+1,680
Substitute Awards	9,344	8,845	9,280	8,431	8,627	+196
Estimates	50,384	51,731	46,684	61,290	55,571	-5,719
Transfers In	7,781	8,223	8,129	9,169	7,028	-2,141
Transfers Out	21,018	23,805	25,518	26,264	24,411	-1,853
AVC Contracts	7,026	8,158	7,811	7,054	6,031	-1,023
AVC Enquiries	19,460	20,595	18,739	18,528	17,334	-1,194
Preservation	4,172	3,591	1,731	1,268	8,266	+6,998
Refunds	31,769	35,511	40,982	38,977	32,411	-6,566
Correspondence	17,508	17,162	19,514	21,648	23,362	+1,714
Pensions on Divorce	207	283	374	2,363	2,888	+525
Other	10,220	8,281	7,066	9,678	9,980	+302
Total Pension Transactions	205,104	214,283	215,463	235,871	228,790	-7,081
Injury Benefits	8,937	6,387	3,658	5,350	4,064	-1,286
Total Activity	214,041	220,670	219,121	241,221	232,854	-8,367
% Activity change	4.1%	4.4%	-0.04%	10.1%	-0.04%	
Total weighted workloads	207,092	216,161	215,214	232,687	242,890	
% workload change	4.1%	4.4%	-0.04%	8.1%	4.4%	

On-Time Awards – Award requests received 6 weeks before due retirement date

Late First Awards – Award requests received with less than 6 weeks notice

Substitute Awards – Revised awards replacing the original one to accommodate changes

Estimates – Estimates of benefits entitlement on request

Transfers In/Out – Pay and transfer values for moving out of the Scheme and receiving payments for people transferring into the Scheme

AVCs (Additional Voluntary Contributions) – Processing enquiries/applications to increase retirement benefits by paying AVCs

Preservation – Deferred benefits for early leavers (with more than 2 years service)

Refunds – Paying refunds of contributions for leavers with less than 2 years service

Correspondence – General correspondence relating to any aspect of the Pension Scheme

Pensions on Divorce – Earmarking or pension sharing arrangements against benefits under a pension scheme

Injury Benefits (IB) – Benefits under the Injury Benefit Regulations

‘Other’ – (1) Service Requests – Requests for membership details

(2) AVC Statements – Statements for in-house and free-standing AVCs

Weighted Activity – Weighting of a transaction based on complexity and time to complete

The main changes in the profile of transactions between 2003-06 were due to a general increase in pensions awareness nationally.

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

Under the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, the NHS Pensions Agency Special Health Authority is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the approval of Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the NHS Pensions Agency Special Health Authority state of affairs at the year end and of its net resource outturn and total recognised gains and losses and cash flows for the financial year.

The NHS Pensions Agency was dissolved on 31 March 2006, and overall responsibility for the NHS Pensions as it continues in the future lies with the newly established NHS Business Services Authority. The Accounting Officer for the Department of Health has appointed the Chief Executive of the NHS Business Services Authority as the Accounting Officer, with responsibility for preparing the NHS Pensions Agency Special Health Authority accounts in its final year and for transmitting them to the Comptroller and Auditor General.

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

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis – notwithstanding the dissolution of the NHS Pensions Agency Special Health Authority, the NHS Pensions Division will continue in operation under revised management arrangements.

The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public funds and assets vested in the NHS Pensions Agency Special Health Authority, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Department of Health.

Statement on Internal Control

Scope of responsibility

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

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

As Accounting Officer, together with the former Chief Executive of the NHS Pensions Agency who was in post for 2005-06, I have responsibility for a sound system of internal control having been maintained that supports the achievement of the Agency's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the Agency's assets for which I am personally responsible, as set out in the Accounting Officer's Memorandum issued by the Department of Health.

On 1 April 2004, the NHS Pensions Agency became a Special Health Authority and was accountable, through its Chair, to the Secretary of State for Health. The Agency's Senior Departmental Sponsor (SDS) in the Department of Health was responsible for ensuring that the Agency's procedures operated effectively, efficiently and in the interests of the public and the NHS. Regular business and financial reports were provided on a monthly basis to the Authority Board and direct to the Senior Departmental Sponsor on a quarterly basis.

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 principal risks to the achievement of Agency policies, aims and objectives; and
- to evaluate the likelihood and impact 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 had 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. I acknowledge that there have been weaknesses during 2005-06, as reported in the paragraph "Significant Internal Control Issues" and that action is being taken to address these in 2006-07.

The following highlights how and where the management team are addressing the backlog of issues and planning for future improvement.

Capacity to handle risk

An Agency Risk Management Strategy was in place and the Agency's Executive Team had responsibility for ensuring this was delivered effectively. Risk workshops were held during the year, including joint risk workshops with the private sector Partner, Envision, and the continuing maintenance of a joint risk register. Also for the 2005-06 business planning round, templates were devised which linked business planning and risk management. The Agency's risk guidance and strategy was also available on the Agency's Intranet site. The Agency's Risk Manager and Internal Audit were available to provide advice and regularly benchmarked the Agency's risk management processes to ensure that good practice was reflected in the Agency's overall risk strategy.

The risk and control framework

The system of internal control was underpinned by compliance with the requirements of the core Controls Assurance Standards:

- Governance;
- Planning & Delivery;
- Risk Management;
- Resource Management.

The Agency had both Audit and Risk Management Committees who reviewed and provided advice on audit, internal control and risk management issues.

The Agency had a number of Risk Registers in operation covering Corporate, Business, Project, Fraud and Partnership risks. Copies of the Corporate and Partnership Risk Registers were routinely copied to the Risk Management Committee.

The Corporate Risk Register is where the principal risks of the Agency were actively managed. The Executive Team reviewed this Register each month when risks and associated actions were evaluated. Corporate Risks were allocated to Executive Team members to manage, they were prioritised and actions identified to improve management of each risk. The Corporate Risk Management priorities of the Agency during 2005-06 have been:

- Transition to NHSBSA;
- Lack of supporting documentation on Bursary Awards;
- Legal and Policy Review of Injury Benefits and some areas of Pensions;
- IT System Developments, particularly in relation to PenServer implementation;
- Financial Management, particularly in relation to Scheme Resource Accounting;
- Agenda for Change;
- Modernisation of the NHS Pension Scheme and associated policy and legislative requirements;
- Communications – Internal and External;
- Business Continuity Planning.

The Agency was committed to managing risks to an acceptable level on all aspects of business activity. The Agency's Corporate and Business Risk Registers have been aligned with the Agency's Corporate and Business Plans to ensure that all priorities and objectives have been risk assessed.

Review of effectiveness

Within the NHS Pensions Agency the Chief Executive had the responsibility for reviewing the effectiveness of the system of internal control on an ongoing basis during the course of the year. This was informed in a number of ways. The Assistant Director – Internal Audit provided an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive managers within the Agency who had responsibility for the development and maintenance of the system of internal control provided assurances. The Assurance Framework itself provided evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives were reviewed. The review was also informed by findings of the National Audit Office as the Agency's External Auditors.

Advice on the implications of the result of the review of the effectiveness of the system of internal control came from internal mechanisms, eg the Authority Board, Audit Committee and Risk Management Committee, who played an important role in ensuring that the Agency had in place an effective and robust assurance framework. A plan to address weaknesses and ensure continuous improvement of the system was in place.

The assurance framework was strengthened during the year to take forward recommendations made by Internal Audit and the National Audit Office. To support the framework, the Agency published its Corporate Governance material, including the core assurance standards and toolkit, on the Intranet site.

The Agency's Executive Directors were formally allocated accountability for risk management, budgets and internal control. At the end of 2005-06, all Executive Directors signed an assurance statement confirming the adequacy of risk management and internal control in their business areas. Our private sector partner also signed an annual assurance statement, which set out the processes they had in place to provide assurance over the effectiveness of their risk management and internal control. This statement was quality reviewed by Internal Audit and Agency management.

The Agency had its own in-house Internal Audit Unit, which operated to standards within the Government Internal Audit Manual. They submitted regular reports, which included an independent opinion by the Assistant Director – Internal Audit on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

Significant Internal Control Issues

As a result of the comprehensive review of the system of internal control that the former Chief Executive and former officers of the NHS Pensions Agency conducted, and on the basis of documentation provided by the NHS Pensions Agency to the NHS Business Services Authority the internal control issues were identified during 2005/06 as:

- Lack of supporting documentation on Bursary Awards;
- Erroneous implementation of Regulation T8 within the Pensions regulations;

In respect of each of the areas listed above, the following action is being taken:

The Agency acknowledges that there is a significant internal control weakness with regard to the documentation to support the payment of Bursary awards. A fully controlled project is in operation to ensure that wherever possible the missing documentation is obtained and placed on file to support historical payments. In addition to the new controls, which have been implemented, scanning of documentation has been introduced which will significantly reduce the risk of payments being made without the relevant supporting documentation.

As a result of the "NHS Amendment Regs 2000" a new regulation "T8" was added to the NHS Pension Scheme regulations that entitled scheme members to statutory interest on scheme benefits paid more than a month after the normal due date. The Agency failed to implement this provision. DH advice is currently being sought around the interpretation of this regulation.

The Authority Board and sub-committees are kept fully updated on issues and progress.

Nick Scholte
Chief Executive NHS BSA
7 July 2006

The Certificate and Report of The Comptroller and Auditor General to The Houses of Parliament

I certify that I have audited the financial statements of National Health Service Pensions Agency Special Health Authority for the year ending 31 March 2006 under the National Health Service Act 1977. These comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Chief Executive and Auditor

The Chief Executive is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Authority has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 43 to 46 reflects the Authority's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Chief Executive's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Report, the unaudited part of the Remuneration Report and the Divisional Reviews. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

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

Qualified opinion arising from a limitation in audit scope

In my opinion:

- except for any adjustments which might have been found to be necessary had I been able to obtain sufficient evidence concerning the accuracy of bursary awards in payment during the year, the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury, of the state of the Authority's affairs as at 31 March 2006, and of its net resource outturn/ surplus/deficit, total recognised gains and losses and cashflows for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of the Treasury; and
- except for the expenditure on bursary awards in year where I could not determine that awards were in accordance with the rules of the scheme, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

Details of this matter are set out in paragraphs 4 to 8 of my report.

John Bourn
Comptroller and Auditor General
18 July 2006

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

NHS Pensions Agency Administration Account 2005-06

Report by the Comptroller and Auditor General

Introduction

1. The NHS Pensions Agency Special Health Authority became responsible for making grants to students under the NHS Bursary Scheme in England on 1 April 2004. The Agency became part of the new NHS Business Services Authority from 1 April 2006. The 2005-06 NHS Pensions Agency Administration Account records the costs of administering the NHS Pension Scheme, the NHS Compensation for Premature Retirement Scheme, the NHS Injury Benefit Scheme, and the NHS Student Bursary Scheme at a net cost in 2005-06 of £460 million. In 2005-06, some £433 million was paid to students under the NHS Bursary Scheme.

2. Prior to 1 April 2004 responsibility for the NHS Bursary Scheme was vested with the Blackpool, Fylde & Wyre Hospitals NHS Trust on behalf of Cumbria and Lancashire Strategic Health Authority and payments made under the Scheme were accounted for in the NHS Summarised Accounts. Under the scheme students attending approved diploma, degree and medical courses are eligible to receive bursary payments during the duration of their study. Payments typically cover study costs and living expenses and support for dependent relatives.

Audit Opinion

3. I have qualified my opinion on the account because I am unable to confirm that the Agency has maintained proper accounting records for certain bursary payments and that I have received all the information and explanations I require for my audit. Specifically, the evidence made available by the Agency to support amounts recorded in the account for bursary payments totalling £433 million was limited to a significant degree.

Scope limitation

4. I qualified my opinion on the NHS Pensions Agency 2004-05 Administration Account because the evidence available to support amounts recorded for bursary payments was limited with between £40.2 and £70.9 million of bursary payments potentially being inaccurate or not in accordance with the Scheme rules. Analysis carried out by the Agency in 2005 and reviewed by the National Audit Office suggested that the majority of the missing documentation related to awards made in 2001-02 and 2002-03 but it was unable to establish whether the documentation had not been obtained, whether the documentation had been obtained but copies had not been retained on file, or whether the documentation had been mislaid during the intervening period.

5. During 2005-06 the Agency commenced an audit of all 94,800 case files covering 115,400 award decisions made between 1999-00 and 2005-06. Of these, 57 per cent related to awards made in the academic years 2003-04 and 2004-05 and a further 19 per cent in the 2005-06 academic year. The Agency's audit found that of 101,837 cases covering 115,374 awards, 92,516 cases (92 per cent) had adequate supporting documentation. The number of unsupported cases found by the Agency was 9,321 (9 per cent). The missing documents ranged from forms of identity (51 per cent); evidence of income (18 per cent); proof of lone parent status (12 per cent); birth certificates for dependants (9 per cent); immigration status (6 per cent); proof of marital status (3 per cent); and proof of dependants' income (1 per cent). In each case the Agency has attempted to contact the student to confirm that their circumstances accord with the award decision. To date replies have been received from 4,141 (45 per cent) of the 9,321 cases with missing documentation and 104 awards have been identified as being substantially inaccurate. The Agency has told me that it is considering recovery action for a total of £26,134 in respect of these cases. The Agency have indicated that due to difficulties in locating former students it has stopped pursuing the remaining 5,180 cases (55 per cent) where there is missing documentation. It is therefore not possible to determine the true extent of any over or underpayment that may have occurred in these cases. The maximum extent of any overpayment could be around £20.7 million assuming all 5,180 awards were inaccurate or not in accordance with Scheme rules.

6. The Agency has also taken steps to strengthen internal controls to ensure that all appropriate evidence to support award decisions is seen and retained. The Agency's internal auditors have reviewed these new controls and have advised the Acting Chief Executive that from January 2006 all new awards have been fully supported.

7. In the absence of effective controls over the bursary payments, the missing documentation in relation to awards from earlier years still in payment during 2005-06 and in respect of new awards made in the early part of 2005-06 means I cannot determine that the relevant awards were made accurately and in accordance with scheme rules. This represents a significant limitation on the scope of my audit.

8. I note the steps being taken by the Agency to obtain the missing evidence in the cases identified and that the Agency is confident that the system of control now in place will ensure that the correct supporting evidence is collected and maintained for all new bursary awards.

John Bourn
Comptroller and Auditor General
18 July 2006

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

Operating Cost Statement for the year ended 31 March 2006

	Notes	2005-06 £000	2004-05 £000
Programme costs	2.1	460,255	422,177
Operating income	4	(506)	(629)
Net operating cost before interest		<u>459,749</u>	<u>421,548</u>
Interest payable		0	0
Net operating cost		<u>459,749</u>	<u>421,548</u>
Net resource outturn	3.1	<u>459,749</u>	<u>421,548</u>

All income and expenditure is derived from continuing operations

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

		2005-06 £000	2004-05 £000
Unrealised surplus/(deficit) on the revaluation of fixed assets	11.2	(74)	0
Unrealised surplus/(deficit) on the indexation of fixed assets	11.2	11	60
Recognised gains and (losses) for the financial year		<u>(63)</u>	<u>60</u>

The notes at pages 55 to 69 form part of these accounts.

Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
Fixed assets:			
Intangible assets	5.1	65	0
Tangible assets	5.2	1,402	874
		<hr/> 1,467	<hr/> 874
Debtors: amounts falling due after more than one year	6.2	837	571
Current assets:			
Debtors	6	2,389	2,416
Cash at bank and in hand	7	16	37
		<hr/> 2,405	<hr/> 2,453
Creditors: amounts falling due within one year	8.1	(735)	(1,064)
Net current assets/(liabilities)		1,670	1,389
Total assets less current liabilities		3,974	2,834
Provisions for liabilities and charges	9	(174)	(62)
		<hr/> 3,800	<hr/> 2,772
Taxpayers' equity			
General Fund	11.1	3,783	2,683
Revaluation reserve	11.2	17	89
		<hr/> 3,800	<hr/> 2,772

The financial statements on pages 52 to 69 were approved by the Board on [date] and signed by

Signed:

Date:

Accounting Officer

Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-06 £000	2004-05 £000
Net cash (outflow) from operating activities	12	(459,875)	(421,680)
Capital expenditure and financial investment: (Payments) to acquire tangible fixed assets		(879)	(547)
Net cash inflow/(outflow) from investing activities		(879)	(547)
Net cash (outflow) before financing		<u>(460,754)</u>	<u>(422,227)</u>
Financing			
Net Parliamentary funding	11.1	460,733	421,992
Increase/(decrease) in cash in the period	7	<u>(21)</u>	<u>(235)</u>

The notes at pages 55 to 69 form part of these accounts.

Notes to the Accounts

1. Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

1.1 Accounting Conventions

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

Acquisitions and Discontinued Operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one NHS body to another.

Going Concern

On 22 July 2004 the Secretary of State for Health announced that the number of NHS bodies that work at 'arms length' from the Department of Health would be reduced. On 30 November 2004, the Secretary of State announced the dissolution of the NHSPA with the transfer of its functions to the NHS Business Services Authority. From 1 April 2006 the assets, liabilities, contractual obligations and staff of the NHSPA will transfer to the NHS BSA.

1.2 Income

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

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

1.3 Taxation

The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.

1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2005-2006 was 3.5% (2004-05 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1. Accounting policies (continued)

1.5 Fixed Assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

b. Valuation

Intangible Fixed Assets

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

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

Tangible Fixed Assets

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

- (i) Land and buildings (including dwellings)
The Agency does not hold any Land or Buildings assets (including dwellings).
- (ii) Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- (iii) All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

1. Accounting policies (continued)

c. Depreciation and Amortisation

Depreciation is charged on each individual fixed asset as follows:

- (i) Intangible assets are amortised on a straight line basis, over the estimated lives of the assets.
- (ii) Each equipment asset is depreciated evenly over the expected useful life:

	Years
Furniture and fittings	10
Plant & engineering equipment	10
Information technology	5

In 2005-06 the Agency has reviewed the classification of the asset lives of plant and engineering equipment and reclassified these as medium term (10 year) rather than long term engineering plant and equipment (15 year) used in 2004-05. This change has resulted in a backlog depreciation charge of £15,231 to Operating Costs (note 2.1).

- (iii) Fixtures and fittings
Fixtures & Fittings previously capitalised and transferred to the SpHA on 1 April 2004 and which form part of the sub-structure of the building were previously depreciated over the remaining years of the lease on Hesketh House. In 2005/06 the asset lives have been changed to comply with the standard lives, which has resulted in backlog depreciation charges of £75,201 to Operating Costs (note 2.1).

1.6 Donated Fixed Assets

The Agency does not hold any Donated Fixed Assets.

1.7 Stocks and work in progress

The Agency does not hold any stocks and work in progress.

1.8 Losses and special payments

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

Losses and special payments are charged to the relevant functional headings in the operating cost statement on an accruals basis, including losses which would have been made good through insurance cover had the Authority not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, note 17 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.9 Pension costs

- (i) The NHS Pension Scheme
Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme liabilities.

1. Accounting policies (continued)

Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contributions payable in 2005-06 was £239,559 (2004-05: £157,014).

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

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

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

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

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

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

1. Accounting policies (continued)

(ii) The Principal Civil Service Pension Scheme

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

The PCSPS is an undefined multi-employer defined benefit scheme but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office : Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005–06, employers' contributions of £1,014,072 were payable to the PCSPS (2004–05 £753,933) at one of four rates in the range 16.2 to 24.6 per cent (2003–04: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 1 April 2006 contribution rates will increase as follows subject to the annual revalorisation of salary bands:

Band	Rate effective from 1 April 2005	Rate of charge from 1 April 2006
Band 1	16.2%	17.1%
Band 2	18.6%	19.5%
Band 3	22.3%	23.2%
Band 4	24.6%	25.5%

1.10 Research and Development

The Agency did not have any Research and Development income or expenditure.

1.11 Foreign exchange

The Agency did not have any Foreign exchange transactions.

1.12 Leases

The Agency has no assets held under finance leases or hire purchase contracts. Rentals under operating leases are charged on a straight line basis over the terms of the lease. The main operating leases are for the rental of Hesketh House and Furness Drive (file storage).

1.13 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms. This is a change from the rate of 3.5% applied in 2004-05. The effect of the change is to increase the carrying value of the provisions by £507.

2.1 Authority programme expenditure

	Notes	£000	2005-06 £000	2004-05 £000
Non-executive members' remuneration			54	58
Other salaries and wages	2.2		11,144	8,989
Supplies and services – general			7	6
Establishment expenses			1,109	1,022
Premises and fixed plant			957	980
External contractors *			12,263	9,956
Capital: Depreciation and amortisation	5.1	194		64
Capital charges interest		40		15
(Profit)/loss on disposal	5.2	0		28
Non-cash items:				
NHS Pension Scheme notional audit fee		67		69
			301	176
Other finance costs – unwinding of discount	9		1	0
– change in discount rate	9		0	0
Auditor's remuneration: Audit Fees			55	45
Auditor's remuneration: Other Fees			4	0
Miscellaneous			1,655	1,730
NHS Bursary Scheme **			432,705	399,215
			<u>460,255</u>	<u>422,177</u>

* The increase in payments to external contractors is due to project expenditure related to Pension Scheme Modernisation work.

** NHS Bursary Scheme expenditure has increased due to the full year cost of the Childcare Allowance introduced in September 2004, and 2.5% increase in Bursary rates from September 2005.

2.2 Staff numbers and related costs

	Permanently employed			2004-05 £000
	2005-06 Total £000	staff £000	Other £000	
Salaries and wages	9,304	7,846	1,458	7,552
Social security costs	586	586	0	526
Employer contributions to NHSPA	240	240	0	157
Other pension costs	1,014	1,014	0	754
	<u>11,144</u>	<u>9,686</u>	<u>1,458</u>	<u>8,989</u>

The increase in staff costs is due pay awards, temporary staff employed on non recurrent development projects in the year, and an estimate for the cost of assimilation of staff on NHS contracts to Agenda for Change paycales.

The average number of employees during the year was:

	Permanently employed			2004-05 Number
	Total Number	staff Number	Other Number	
Total	<u>391</u>	<u>351</u>	<u>40</u>	<u>358</u>

The increase in the average number of employees is attributed to temporary staff employed on non recurrent development projects in the year.

Expenditure on staff benefits

There were no staff benefits during the year (2004-05: £0).

Retirements due to ill-health

The Agency did not have any retirements on the grounds of ill-health.

2.3 Better Payment Practice Code – measure of compliance

	Number	£000
Total non NHS bills paid 2005-06	1,701	15,300
Total non NHS bills paid within target	<u>1,648</u>	<u>15,149</u>
Percentage of non NHS bills paid within target	<u>96.9%</u>	<u>99.0%</u>

	Number	£000
Total NHS bills paid 2005-06	21	1,762
Total NHS bills paid within target	<u>18</u>	<u>1,704</u>
Percentage of NHS bills paid within target	<u>85.7%</u>	<u>96.7%</u>

Overall, the Agency has improved compliance levels during the year, however a small number of payments to NHS bodies have been made late. These represent less than 1% of the total volume of invoices paid.

No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998 and no compensation costs were made.

3.1 Reconciliation of net operating cost to net resource outturn

	2005-06	2004-05
	£000	£000
Net operating cost		
– Administration Costs	27,044	22,333
– NHS Bursary Scheme	<u>432,705</u>	<u>399,215</u>
Net resource outturn	<u>459,749</u>	<u>421,548</u>
Revenue resource limit	<u>459,751</u>	<u>421,548</u>
(Over)/under spend against revenue resource limit	<u>2</u>	<u>0</u>

3.2 Reconciliation of gross capital expenditure to capital resource limit

	2005-06	2004-05
	£000	£000
Gross capital expenditure	850	626
NBV of assets disposed	<u>0</u>	<u>28</u>
Net capital resource outturn	<u>850</u>	<u>598</u>
Capital resource limit	<u>850</u>	<u>600</u>
(Over)/under spend against limit	<u>0</u>	<u>2</u>

4. Operating income

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

	Appropriated in aid £000	Not Appropriated in aid £000	Total £000	2004-05 £000
Programme income:				
Fees & charges to external customers	506	0	506	629
Total	506	0	506	629

5.1 Intangible fixed assets

	Software licences £000	Total £000
Gross cost at 31 March 2005	78	78
Additions – purchased	65	65
Gross cost at 31 March 2006	143	143
Accumulated amortisation at 31 March 2005	78	78
Accumulated amortisation at 31 March 2006	78	78
Net book value:		
Purchased at 31 March 2005	0	0
Total at 31 March 2005	0	0
Net book value:		
Purchased at 31 March 2006	65	65
Total at 31 March 2006	65	65

5.2 Tangible fixed assets

	Plant and machinery £000	Information technology £000	Furniture & fittings £000	Total £000
Cost or Valuation at 31 March 2005	86	24	1,242	1,352
Additions – purchased	146	114	525	785
Indexation	1		22	23
Other in year revaluations	(10)		(180)	(190)
Gross cost at 31 March 2006	223	138	1,609	1,970
Accumulated depreciation at 31 March 2005	64	2	412	478
Charged during the year	16	4	174	194
Indexation	1		11	12
Other in year revaluation	(7)		(109)	(116)
Accumulated depreciation at 31 March 2006	74	6	488	568
Net book value:				
Purchased at 31 March 2005	22	22	830	874
Total at 31 March 2005	22	22	830	874
Net book value:				
Purchased at 31 March 2006	149	132	1,121	1,402
Total at 31 March 2006	149	132	1,121	1,402

Please refer to the note at 11.2 (Revaluation Reserve)

Intangible fixed assets relating to software licences were capitalised in previous years as tangible fixed assets. Gross cost and accumulated depreciation at 31 March 2005 have been restated.

5.2 Profit/(loss) on disposal of fixed assets

	31 March 2006 £000	31 March 2005 £000
(Loss) on disposal of plant and equipment	0	28
	<u>0</u>	<u>28</u>

6. Debtors

6.1 Amounts falling due within one year

	31 March 2006 £000	31 March 2005 £000
Provision for irrecoverable debts:		
– NHSPA Administration	(9)	(11)
– NHS Bursary Scheme	(2,226)	(1,212)
Prepayments	270	198
Other debtors		
– NHSPA Administration	619	888
– NHS Bursary Scheme	3,735	2,553
	<u>2,389</u>	<u>2,416</u>

6.2 Amounts falling due after more than one year

	£000	£000
Other debtors		
– NHS Bursary Scheme	837	571
	<u>837</u>	<u>571</u>
Total debtors	<u>3,226</u>	<u>2,987</u>

The split of prior year NHS Bursary Scheme debtors due within 1 year and after more than one year have been restated using the same criteria as used in 2005-06. This method provides a more representative split of the total debtor balance.

7. Analysis of changes in cash

	At 31 March 2005 £000	Change during the year £000	At 31 March 2006 £000
Cash at OPG	20	(9)	11
Cash at commercial banks and in hand	17	(12)	5
	<u>37</u>	<u>(21)</u>	<u>16</u>

8. Creditors:

8.1 Amounts falling due within one year

	31 March 2006	31 March 2005
	£000	£000
NHS creditors	151	236
Capital creditors	22	51
Other creditors	0	28
Accruals	562	749
	<u>735</u>	<u>1,064</u>

Accruals at 31 March 2005 included £198k in respect of inflation charges backdated to 1 January 2002 on the contract with Paymaster (1836) Ltd. This cost was part of a re-alignment clause within the Contract.

8.2 Amounts falling due after more than one year

There are no amounts falling due after more than one year.

9. Provisions for liabilities and charges

	Pensions for former staff £000	Legal claims £000	Other £000	Total £000
At 31 March 2005	62	0	0	62
Arising during the year	147	0	0	147
Utilised during the year	(14)	0	0	(14)
Reversed unused	(22)	0	0	(22)
Change in the discount rate	0	0	0	0
Unwinding of discount	1	0	0	1
At 31 March 2006	<u>174</u>	<u>0</u>	<u>0</u>	<u>174</u>
Expected timing of cash flows:				
Within 1 year	60	0	0	60
1-5 years	114	0	0	114
Over 5 years	0	0	0	0

The amount recorded as reversed unused relates to the reversal of a notional provision for early retirements paid by the Department of Health prior to the NHSPA becoming a Special Health Authority.

There are no provisions for liabilities and charges in respect of the NHS Bursary Scheme.

10. Movements in working capital other than cash

	2005-06 £000	2004-05 £000
Increase/(decrease) in debtors	239	(343)
(Increase)/decrease in creditors	300	667
	<u>539</u>	<u>324</u>

11. Movements on reserves

11.1 General Fund

	2005-06	2004-05
	£000	£000
Balance at 31 March 2005	2,683	2,132
Net operating costs for the year		
– NHSPA Administration	(27,044)	(22,333)
– NHS Bursary Scheme	(432,705)	(399,215)
Net Parliamentary funding		
– NHSPA Administration	27,595	22,772
– NHS Bursary Scheme	433,138	399,220
Transfer of realised profits/losses from revaluation reserve	9	23
Non-cash items:		
– Capital charge interest	40	15
– Notional Audit Fee	67	69
Balance at 31 March 2006	<u>3,783</u>	<u>2,683</u>

11.2 Revaluation reserve

	£000	£000
Balance at 31 March 2005	89	52
Indexation of fixed assets	11	60
Revaluation of fixed assets	(74)	0
Transfer to general fund of realised elements of revaluation reserve	(9)	(23)
Balance at 31 March 2006	<u>17</u>	<u>89</u>

In the 2004-05 Accounts, Fixed Assets and the Revaluation Reserve included £52k relating to indexation on asset values prior to 1 April 2004, where the individual assets could not be identified. In 2005-06 this indexation has been written back to the Revaluation Reserve and associated subsequent indexation has been recalculated. Additionally other assets which were being depreciated over the life of the Hesketh House lease (approx 25 years) have now been reduced to 10 years to comply with NHS capital accounting policies.

12. Reconciliation of operating costs to operating cash flows

		2005-06	2004-05
		£000	£000
Net operating cost before interest for the year		459,749	421,548
Adjust for non-cash transactions	2.1	(301)	(176)
Adjust for movements in working capital other than cash	10	539	324
(Increase)/decrease in provisions	9	(112)	(16)
Net cash outflow from operating activities		<u>459,875</u>	<u>421,680</u>

13. Contingent liabilities

A new regulation, "T8" was added to the NHS Pension Scheme which entitled scheme members to statutory interest on scheme benefits paid more than a month after the date, but was not implemented by the Agency. Consequently, compensation payments to scheme members may become payable, however the financial effect of this is not known.

(2004-05: £200,000).

14. Capital commitments

There were no capital commitments at 31 March 2006.

(2004-05: £0).

15. Commitments under operating leases

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

	2005-06 £000	2004-05 £000
Hire of plant and machinery	0	0
Other operating leases	275	362
	<u>275</u>	<u>362</u>

Commitments under non-cancellable operating leases:

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

Land and buildings		£000	£000
Operating leases which expire:	within 1 year	0	0
	between 1 and 5 years	25	22
	after 5 years	250	250
		<u>275</u>	<u>272</u>

The annual commitment on land and buildings between 1 & 5 years disclosed in 2004-05 did not include non-recoverable VAT. If corrected, the amount disclosed would have been £25k.

The lease on Hesketh House is due to be reviewed in September 2008.

16. Other commitments

The Authority has entered into non-cancellable contracts (which are not operating leases) for the provision of contracted out services totalling £92.6m over 11 years as at 31 March 2006

(2004-05 £102m)

17. Losses and special payments

There were 1,901 cases of losses and special payments totalling £459,161.33 approved during 2005-06 (2004-05 1,728 cases totalling £521,074.15).

	2005-06		2004-05	
	Value	Volume	Value	Volume
Administration A/c	20,809.35	119	15,183.90	76
Bursary A/c	414,361.62	1,745	451,604.24	1,574
Ex-Gratia Payments	23,990.36	37	54,286.01	78
Total	459,161.33	1,901	521,074.15	1,728

NHS Bursary Scheme losses equate to 0.1% of total bursary payments in 2005-06 (2004-05: 0.1%).

18. Related parties

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

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

	Income	Expenditure
	£	£
Blackpool Fylde & Wyre NHS Trust	0	1,678,080
Department of Health	120,789	9,573
NHS Litigation Authority	0	16,841

In addition the NHS Pensions Agency Special Health Authority had a significant number of transactions with HM Revenue & Customs, Wyre Borough Council, and Belfast City Council.

19. Post balance sheet events

On 22 July 2004 the Secretary of State for Health announced that the number of NHS bodies that work at 'arms length' from the Department of Health would be reduced. On 30 November 2004, the Secretary of State announced the dissolution of the NHSPA with the transfer of its functions to the NHS Business Services Authority. From 1 April 2006 the assets, liabilities, contractual obligations and staff of the NHSPA will transfer to the NHS BSA.

20. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Special Health Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Special Health Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Strategic Health Authority in undertaking its activities.

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

Liquidity risk

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

Interest-rate risk

None of the Authority's financial assets or liabilities carry nil or fixed rates of interest. The NHS Pensions Agency Special Health Authority is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Authority's financial assets and liabilities:

Financial assets

Currency	Total £000	Floating rate £000	Fixed rate £000	Non-interest bearing £000
At 31 March 2006				
Sterling	11	0	0	11
Other	5	0	0	5
Gross financial assets	<u>16</u>	<u>0</u>	<u>0</u>	<u>16</u>
At 31 March 2005				
Sterling	20	0	0	20
Other	17	0	0	17
Gross financial assets	<u>37</u>	<u>0</u>	<u>0</u>	<u>37</u>

Foreign currency risk

The Authority has no foreign currency income or expenditure.

Fair values

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2006 is as follows:

	Book value £000	Fair value £000	Basis of fair valuation
Financial assets:			
Cash	11	11	
Debtors over 1 year			
Total	<u>11</u>	<u>11</u>	
Financial liabilities:			
Overdraft	0	0	
Creditors over 1 year:			
Early retirements	0	0	note a
Finance leases	0	0	note b
Provisions under contract	174	174	note c
Loans	0	0	
Total	<u>174</u>	<u>174</u>	

Notes:

- Fair value is not significantly different from book value since interest of 9% is paid on early retirement creditors.
- To obtain fair value, cash flows have been discounted at prevailing market interest rates for finance leases for a similar term.
- Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted at the Treasury rate of 2.2% in real terms.

21. Intra-government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors Amounts falling due within one year £000	Creditors Amounts falling due after more than one year £000
Balances with other central government bodies	524	0	0	0
Balances with NHS Trusts	0	0	151	0
Balances with bodies external to government	1,865	837	584	0
At 31 March 2006	<u>2,389</u>	<u>837</u>	<u>735</u>	<u>0</u>
Balances with other central government bodies	637	0	132	0
Balances with local authorities	0	0	17	0
Balances with NHS Trusts	0	0	103	0
Balances with bodies external to government	1,779	571	812	0
At 31 March 2005	<u>2,416</u>	<u>571</u>	<u>1,064</u>	<u>0</u>

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