



NHS Business Services Authority

ANNUAL REPORT AND ACCOUNTS 2008/09

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

Ordered by the House of Commons to be printed on 29 June 2009



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NHS Business Services Authority

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CONTENTS

Chair's introduction	3
Who we are	4
How we operate	6
Our core business streams	7
Performance measurement and management.....	12
Our people	16
Board members.....	17
Management commentary for the year ended 31 March 2009	18
Looking to the future	24
Register of interests	24
Remuneration report	26
Statement of Chief Executive's responsibilities.....	32
Statement on internal control	33
Certificate and report of the Comptroller and Auditor General	38
Financial statements	41

Chair's introduction

The NHS Business Services Authority (NHSBSA) has worked hard over the last three years to become an organisation which delivers high quality services and value for money. We deliver a wide range of diverse services and our aim is to support, supply and protect the NHS. I am delighted by the progress we continue to make.

During 2008/09, we have further developed our performance management systems to include measures of our customers' satisfaction, the outcomes of ongoing benchmarking activity and the introduction of employee engagement measures. Managing, understanding and improving the experience and quality we give to users of our services will remain a priority for us.

Our clients are those who pay for our services, largely within the Department of Health (DH). During 2008/09, we have been working closely with these clients to develop and introduce an improved framework to support increased engagement and communication. This will help us to deliver better services which fully meet the requirements of our clients, and so in turn bring benefits for users of our services. In terms of value for money for the taxpayer, we have now saved cumulatively in real terms, some £55 million in the last three years, to operate all our services against a background of increasing demand.

We have achieved a great deal during 2008/09 across all our service areas. These achievements are recorded throughout this report. A good example to highlight is the introduction of the new 2008 section of the NHS Pension Scheme. From 1 April 2008, every new member of staff across the NHS was eligible to join the 2008 section. Staff within NHS Pensions worked very hard to prepare for and deliver the new section alongside the existing service. This work continues into 2009/10 as staff prepare for the Choice programme which gives all members of the older section the choice of moving to the new 2008 section.

It is important we recognise our success is due to the efforts and dedication of the many people who work for and with the NHSBSA. I would like to record my personal thanks for all their individual contributions.

I am confident we can continue to meet future challenges and we are already focussing on making the year ahead another success despite the tough economic climate.

Paul Rich
Chair
NHS Business Services Authority

Who we are

We are a Special Health Authority (SpHA) of the DH providing a range of services to support members of the public and the NHS frontline.

Our vision is to be the organisation of choice providing business solutions that deliver service excellence and value for money. Since our creation in October 2005, we have already delivered over £55m in savings, which is being reinvested back into essential NHS frontline services.

Our vision is supported by our mission which is to:

“Support the NHS, supply the NHS and protect the NHS”.

Our extensive service portfolio includes:

- Management of the NHS Pension Scheme in England and Wales which has over **2 million** members and receives contributions of over **£7 billion** per annum.
- Administration of the European Health Insurance Card (EHIC) scheme (in the UK) processing over **3.5 million EHIC cards** this year.
- Provision of NHS Counter Fraud and Security Management services (in England and Wales), which over the last 10 years has successfully detected and investigated circa **£70 million** of fraud against the NHS.
- Management of a 10-year outsourced contract for the delivery of supply chain services to the NHS (in England and Wales), supporting the planned delivery of around **£1 billion** of procurement savings to the NHS over the life of the contract.
- Payments to pharmacists (in England) for prescriptions dispensed in primary care settings (circa **800 million** for prescription items with payments over **£8 billion pa**).
- Payments to dentists for work undertaken on NHS contracts (**40 million** dental forms with payments totalling over **£2.5 billion**) in England and Wales.
- Provision of management information to over **25,000** registered NHS and DH users on costs and trends in prescribing and dental care in England and Wales.
- Administering a range of health benefit schemes across the UK, including a low income scheme, medical and maternity exemption schemes, tax credit NHS exemption cards (in the UK) and prescription pre-payment certificates (in England). In total we process over **6 million** claims per annum.

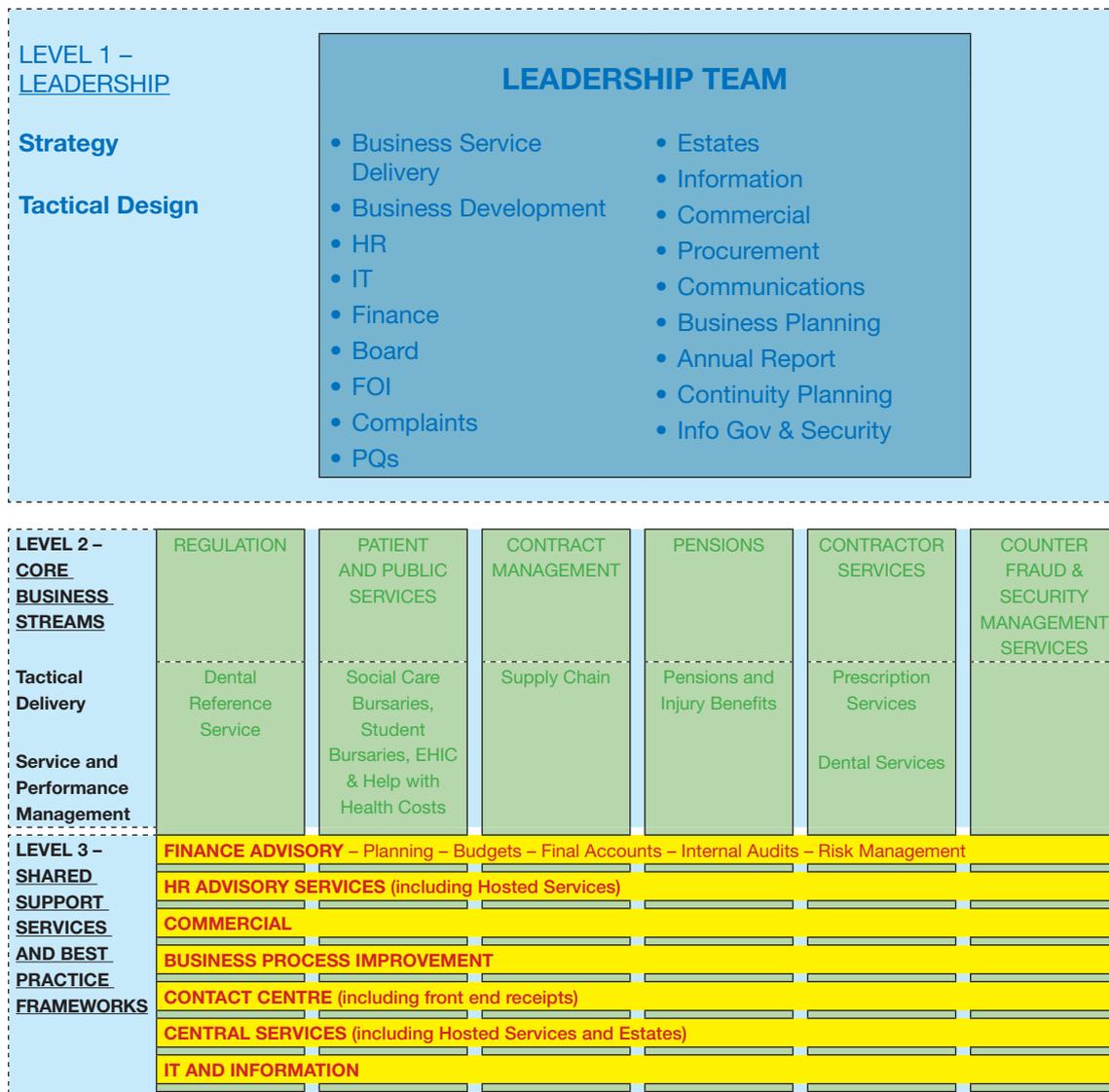
- Management of schemes for NHS Student Bursaries and NHS Social Work Bursaries (in England) making payments of over **£530 million** in respect of over **80,000** registered healthcare and social work professionals.
- Management of the NHS Injury Benefit Scheme (in England and Wales) processing over **24,000** applications since the inception of the Scheme.
- Provision of a range of hosted employment, human resources and financial services, employing around **2,000** staff and administering payments of over **£100 million** on behalf of various DH teams and programmes.

How we operate

The NHSBSA provides a wide and diverse range of services to customers. During 2008/09, we have undertaken significant work to improve clarity within our service brands.

Within the NHSBSA, we have a flexible management structure which allows us to focus on the needs of our customers, improving efficiencies and maximising opportunities to ensure synergy savings across our services.

Our common processes are grouped within six business streams, each with a clear role and focus. These are supported by shared service frameworks for each of the following; finance, human resources, commercial, information technology, central services, business process improvement and contact centres. The diagram below highlights this management model:



Our core business streams

Business stream: Regulation and Contractor Services

Dental Reference Service and Dental Services

NHS Dental Services processes prompt and accurate payments to dentists on behalf of Primary Care Trusts (PCTs) in England and Local Health Boards (LHBs) in Wales, as well as providing dental statistics and key information to national, regional and local NHS bodies. Dental Services also employs a team of experienced and calibrated dentists to monitor and advise on quality within the General and Personal Dental Services through a risk-based monitoring system. This team is known as the Dental Reference Service (DRS).

2008/09 was the third full year of local commissioning of NHS Dentistry and dentistry remains a key area of activity for the NHS to focus on, as set out in the DHs 2008/09 NHS Operating Framework.

The portfolio of dental products and services we offer include:

- Contract management.
- Clinical services.
- Financial management.
- Risk management.
- Guidance and advice.

Key achievements:

- The implementation of a new system for delivering flexible and improved online reporting to all health bodies in England and Wales, giving customers direct access to their data in addition to an existing suite of reports.
- Investment in the structure of our data warehouse has enabled information to be pulled from various sources to generate powerful reports which quickly highlight issues that need attention.

A new contract monitoring model, which was piloted in 2008/09, has been agreed following a review of the Dental Reference Service, with full implementation planned for 2009/10. The risk based approach has been developed between Dental Reference Officers, PCTs and LHBs for Wales. Our clinical policy advisers are now working with PCTs in each Strategic Health Authority (SHA) area to provide input into NHS dentistry risk management processes.

Prescription Services

Prescription Services calculate and pay on behalf of the NHS, reimbursement and remuneration fees due to dispensing contractors (mainly community pharmacies, dispensing doctors and appliance contractors), for prescription items they have dispensed to patients.

Key achievements:

- Processed more than 800 million prescription items and the annual payments made on behalf of the NHS amount to more than £8 billion.
- Continued with the rollout of the new pricing system designed to deliver significant efficiency savings in the processing of prescriptions. By October 2008, all community pharmacy accounts (around 64 million prescription items per month) were being processed through the new Capacity Improvement Programme (CIP).
- Developed our systems, working with suppliers and NHS Connecting for Health, so we can accept electronic prescriptions from pharmacy contractors.
- Continued to maintain the NHS dictionary of medicines and devices providing accurate information (99.99%) and supporting the National Patient Safety Agency (NPSA) led initiative to standardise abbreviation of product label names
- Worked closely with the NHS Information Centre, Healthcare Commission, the National Prescribing Centre and Connecting for Health to provide prescribing data to meet the wider requirements of the NHS.

Business stream: Patient and Public Services

Patient and Public Services

Patient and Public Services administers a range of schemes to more than 10 million people. These are known as Help with Health Costs and are aimed at helping people save money with their health costs. Patient and Public Services utilises a shared service approach providing customer call handling and scanning services. During 2008/09 we managed the following volumes of activity:

- 2.5 million calls across to our customer call handling centres.
- 3.5 million European Health Insurance Cards (EHIC).
- 3.4 million tax credit NHS exemption cards.
- 440,000 low-income scheme NHS exemption certificates.
- 493,000 maternity exemption certificates.
- 360,000 medical exemption certificates.
- 1.4 million prescription pre-payment certificates (PPCs).

Key achievements:

- Continued to raise awareness of our services in line with Health Select Committee recommendations, using regular direct mailings to pharmacies, GP surgeries and key stakeholders.
- Introduced systems to deliver the Prime Minister's commitment to abolish NHS prescription charges for people with cancer. Up to 150,000 patients already diagnosed with cancer are expected to benefit, saving them £100 or more each year in prescription charges.
- Rationalised structures, mailing and distribution systems and printing requirements, delivering over £800,000 worth of efficiency savings.

NHS Student Bursaries

We administer the Student Bursary Scheme for England on behalf of ten SHAs and during 2008/09 we successfully processed 98,000 bursary awards, making 800,000 payments totalling over £465 million. Overall accuracy of assessments was high with 98.11% achieved against a target of 97%.

During 2008/09 the method of applying for a bursary changed from application forms being sent to students via the postal service to being available on the website for students to download and complete. This was an initiative introduced as part of the business process improvement that delivered cost savings across the organisation and improved ease of access for customers.

NHS Social Work Bursaries

During 2008/09 the Social Work Bursary team processed over 13,000 bursary applications, making 40,000 payments totalling nearly £67 million. Throughout the year the accuracy of assessments remained very high with 99.3% achieved against a target of 97%.

We have continued to make improvements including the re-design of childcare and other application forms, simplification of our filing systems and tighter control over the tuition fee process.

Business stream: Contract management

Supply Chain Management

The NHSBSA manages an outsourced service agreement with DHL, experts in the international express and logistics industry, for the provision of supply chain and logistical services, including procurement and sales to the NHS.

Key achievements:

- Supported NHS Supply Chain to deliver real benefits to the NHS. We have monitored service performance to NHS customers and helped support changes required to deliver growth.

- Monitored and reviewed the savings delivered to the NHS in year two of the contract, which were approximately £30 million. Significant growth was also achieved through a number of service improvements and developments including catalogue expansion as well as changes to the infrastructure which saw the opening of a new distribution centre in Rugby.
- Continued to develop our approach to supporting NHS Supply Chain with escalating savings over the remaining eight years of the contract driven through a programme of growth and further service development.
- Retained supply chain knowledge and capability within the NHS, (an intelligent client role) and undertook specialist DH supply chain work to ensure the continued delivery of a number of essential DH initiatives including flu pandemic planning and service level agreement (SLA) management.

Business stream: Pensions

NHS Pensions

The NHS Pension Scheme provides retirement benefits to NHS employees, GPs, dentists and employees of other approved organisations in England and Wales.

Key achievements:

- Successfully introduced a new section of the NHS Pension Scheme. There are now two sections to the NHS Pension Scheme – the 1995 amended section and the 2008 section.
- Managed an increased volume of workload of over 20% compared to the previous year through an emphasis on utilising best practices and resource flexibility.
- Introduced revised ill health retirement arrangements and also introduced transitional regulations to cater for those rejoining the pension scheme.
- Developed the necessary infrastructure to implement the Pensions Choice exercise.
- Successfully undertook a major data cleanse project to facilitate the introduction of the Pensions Choice exercise, updating 800,000 records in the process.
- Implemented new legislation with regard to the calculation of pension transfer values.
- Enhanced our assurance framework and financial reporting with regard to the NHS Pension Scheme accounts.

NHS Injury Benefits Scheme

The NHS Injury Benefit Scheme provides an annual allowance for staff who have suffered a permanent loss of earning ability as the result of an illness or injury which is wholly or mainly attributable to their NHS employment.

A review of the administration of the scheme began in 2007/08 following concerns that some past claims had been wrongly rejected or calculated incorrectly and this review is now largely complete. We scrutinised all applications received since the inception of the Injury Benefit Scheme in 1972 and corrected almost 9,000 cases.

In addition, a public information exercise to invite applications from claimants previously deterred from applying for Injury Benefit attracted over 300 claims. Work continues on this element of the exercise.

Business streams: Counter Fraud and Security Management

NHS Counter Fraud and Security Management

The NHS Counter Fraud and Security Management (CFSM) has responsibility for policy and operational matters relating to the prevention, detection and investigation of fraud and corruption in the DH and NHS and for the management of security in the NHS.

During 2008/09 we reported our performance for 2007/08 which showed that:

- 351 cases of potential fraud were investigated by CFSM with potential savings of £7.6 million. (Figure calculated using National Audit Office (NAO) approved methodology).
- We achieved a 95% successful prosecution rate which demonstrates the professionalism of investigations.
- We have continued to develop areas for fraud prevention, such as the development of an improved system weakness reporting process to enable vulnerable processes to be highlighted at an early stage.
- We undertook a review of payment procedures in respect of employment agencies and as a result a fraud prevention proactive tool kit was designed for use by local specialists in NHS Bodies.

The aim of our Security Management service (NHSSM) is to deliver a secure environment for NHS staff and patients. Our latest figures show that the number of reported physical assaults against NHS staff in England was 55,993, an increase of 284 compared to the previous year. During the same period the number of criminal sanctions in cases of assault rose to 992 from 869 the previous year.

Key achievements:

- We identified that 428,000 frontline staff in the NHS have been trained in conflict resolution techniques in accordance with a syllabus we released.

- We continued to support the training of local security management specialists and over 90% of health bodies now have access to a trained and accredited security specialist.
- We held our third Security Awareness Month with NHS bodies; to help demonstrate to NHS staff and professionals that violence and abuse should not be viewed as “part of the job”.
- We supported the DH by developing a contractual framework for the delivery of safety devices for lone NHS workers.

Shared support services

Hosted Services

The NHSBSA provides a range of hosted financial and HR services to other NHS organisations and DH teams. The costs we incur in providing these services, primarily staff costs, have been included within our operating expenditure as has the total income contributions received from these organisations to cover these costs. For 2008/09 the income received from hosted and managed services was £1.1 million.

The income and expenditure of the organisations we provide hosted services to, although disbursed by our organisation, are not included in our income and expenditure accounts as they are charged to the relevant organisation’s accounts.

Performance measurement and management

Performance management system

We have developed a comprehensive balanced scorecard which assists in driving continuous improvements in our performance.

The scorecard can be interrogated at various levels and provides data on:

- Financial performance.
- Specific service level operating performance.
- Project performance.
- Key performance indicators (KPIs).
- Customer satisfaction.
- Benchmarking of operational processes and industry standard services.
- Employee engagement and satisfaction.

Performance management reporting

Performance reports are reviewed regularly across our organisation covering a range of service delivery KPIs, project progress, customer satisfaction results and financial performance.

Board members meet regularly with DH sponsors to discuss performance and to ensure our business continues to deliver against requirements. Indeed, we have reviewed and significantly improved the way in which we work with our clients during the last year. We have introduced a new framework which provides a more structured approach to ensure our clients have regular opportunities to discuss their priorities and requirements with us. We also gain valuable feedback as to their satisfaction with service delivery.

Service delivery KPIs

KPIs measure our service performance and are the consolidation of over 80 service delivery performance indicators. The areas of performance can be cut by business services and business processes.

Business services include:

- NHS contractors – which covers Prescription and Dental Services.
- Patient and the public – which covers Student Bursary schemes, EHIC and Help with Health Cost schemes.
- Pensions – which covers the administration of the NHS Pension Scheme.
- Supply Chain – which covers the procurement and delivery of goods and services to the NHS via NHS Supply Chain.
- Hosted services – which covers financial and HR transactions for other DH teams.

Business processes include:

- Payments – measuring “timeliness” and accuracy.
- Case administration – measuring “timeliness” and accuracy.
- Information – measuring the timeliness of our information products to our customers.
- Supply chain – standard industry measurements in the areas of “on time in full”, product delivery and orders received on time.
- Contact centre – standard industry measurements in the areas of wait times and abandoned call rates.

The service delivery KPI results are shown in the table below. The results report on a RAG (red-amber-green) basis and demonstrate the average performance throughout 2008/09.

Overall performance during 2008/09 has been good with most targets either achieved or improved.

			Payments		Case Admin		Information	Contact Centre		Supply Chain		
			Timeliness	Accuracy	Timeliness	Accuracy	Timeliness	Wait Times	Abandoned Call Rate	Product Availability	goods/orders received on time	On time, in full
Contractor Services	Dental	Annual Status	Green	Green			Green	Green	Green			
		Qtr 4 Status	Green	Green			Green	Green	Green			
	Pharmacy	Annual Status	Green	Green			Green	Green	Green			
		Qtr 4 Status	Green	Green			Green	Green	Green			
Patient/Public SGU and Patient Services	Annual Status	Green	Green	Green	Green		Green	Green				
	Qtr 4 Status	Green	Green	Green	Green		Green	Green				
Pensions Division	Annual Status	Green		Amber	Green		Amber	Amber				
	Qtr 4 Status	Green		Amber	Green		Green	Green				
Supply Chain Management	Annual Status								Green	Green	Green	
	Qtr 4 Status								Green	Green	Green	
Hosted Services	Annual Status	Green	Green	Green	Green							
	Qtr 4 Status	Green	Green	Green	Green							

Two areas where there have been performance issues in 2008/09 are within the contact centre and case administration processes within our Pensions Service. The performance issues within our contact centre have now been resolved, with performance in this area over the last quarter of the year continuing to be on target. Case administration performance continues to be below target. However this is mainly due to issues beyond the control of the service, where information supplied by employers is missing, or where there have been delays receiving information regarding legislative changes.

Customer satisfaction

The NHSBSA undertakes annual structured customer satisfaction surveys (by an independent specialist) with a variety of our stakeholders. These provide valuable feedback to enable action plans to be created to improve our customers experiences.

The areas surveyed mirror our KPIs but also include an overall customer satisfaction result based on customers being asked to consider all aspects of the service they currently receive.

The results are reported on a RAG basis where a score below 5.9 is red, a score between 6.0 and 7.9 is amber and a score between 8.0 and 10.0 is green. The overall results for 2008/09 are shown below:

		Payments		Case Admin	Information		Contact Centre	Supply Chain		Overall
		Timeliness	Accuracy		Timeliness	Accuracy		Deliveries on time	Delivered accurate and complete	
Contractor Services	Dental	9.1	8.6	8.2	7.9	8.1	8.2			7.6
	Pharmacy	8.8	8.0		8.1	7.8	8.8			7.8
Patient/Public SGU and Patient Services		8.9	9.7		8.4	9.3	9.4			8.7
Pensions				7.3	7.1	7.9	7.6			6.6
Security Management				8.8	8.0					7.4
Security Chain Management				8.3				8.0	7.8	6.9
Hosted Services		8.0	8.0	8.6	9.1	8.4				7.9

The NHSBSA will continue to collect and monitor customer satisfaction but importantly, we will continue to use this feedback to improve our services. All the information collected during 2008/09 has been used in our planning for the future to ensure we improve services for our customers. We understand some improvements will take longer than others but we continue to communicate with our customers to ensure they understand where improvements are being made.

Our people

The NHSBSA considers it essential to develop our leadership and management capability and capacity to ensuring effective future leadership.

The continuing change within individual business areas involves lengthy consultation and negotiation with three separate unions to ensure the process is managed effectively and fairly. This will be enhanced further with the new management model and a refreshed view of workforce planning and development.

Our human resources team have been heavily involved in supporting staff affected by the Capacity Improvement Programme (CIP) throughout last year. By the end of 2008/09 the departure of the majority of staff was completed and all outgoing staff participated in a range of outplaced and development activities (including achieving recognised qualifications) designed to support them in the future.

Considerable progress has also been made during the last year in reviewing HR policies and procedures to ensure the harmonisation of all HR policies.

Board members

The NHSBSA Board comprises executive and non-executive members, namely:

- Paul Rich Chair of the Board and Member of the Remuneration Committee
- Nick Scholte Chief Executive
- Anne Galbraith Non Executive Director and Member of the Audit & Risk Management Committee
- Michael Harling Non Executive Director and Chair of the Remuneration Committee
- David Hulf Non Executive Director, Vice Chair and Chair of the Audit & Risk Management Committee
- Jeremy Strachan Non Executive Director and Member of the Audit & Risk Management Committee
- David Teale Non Executive Director and Member of the Remuneration Committee
- Alistair McDonald Chief Operating Officer
- Jim Orr Commercial Director
- Roberta Barker Director of Human Resources (from 29 September 08)
- Mike Siswick Director of Human Resources (until 30 September 08)
- John Smith Director of Finance

The Board's declared interests are listed on pages 24, 25 and 26 of this report.

Management commentary for the year ended 31 March 2009

Financial review

Our financial statements have been prepared in accordance with the direction given by the Secretary of State for Health under the NHS Act 2006 and in a format instructed by the DH with the approval of HM Treasury.

Our accounts for 2008/09 comprise a balance sheet, operating cost statement and cash flow statement, all with related notes.

The NHSBSA differs from most other SpHAs in that our operating cost statement includes a summary of the trading account of NHSSC which is also supported by a full disclosure note reflecting the different nature of supply chain trading to the administration of the rest of the NHSBSA. Likewise our balance sheet is broken down in the notes to the accounts to highlight the NHSSC balances.

Financial performance

Like all of the DH ALBs, the NHSBSA has been set stringent financial targets against which it is expected to deliver.

For 2008/09 the NHSBSA was required to maintain its expenditure within certain key funding limits.

- Revenue expenditure within a limit of £139.931 million.
- Capital expenditure within a limit of £16.573 million.
- Total cash spend within a limit of £144.189 million.

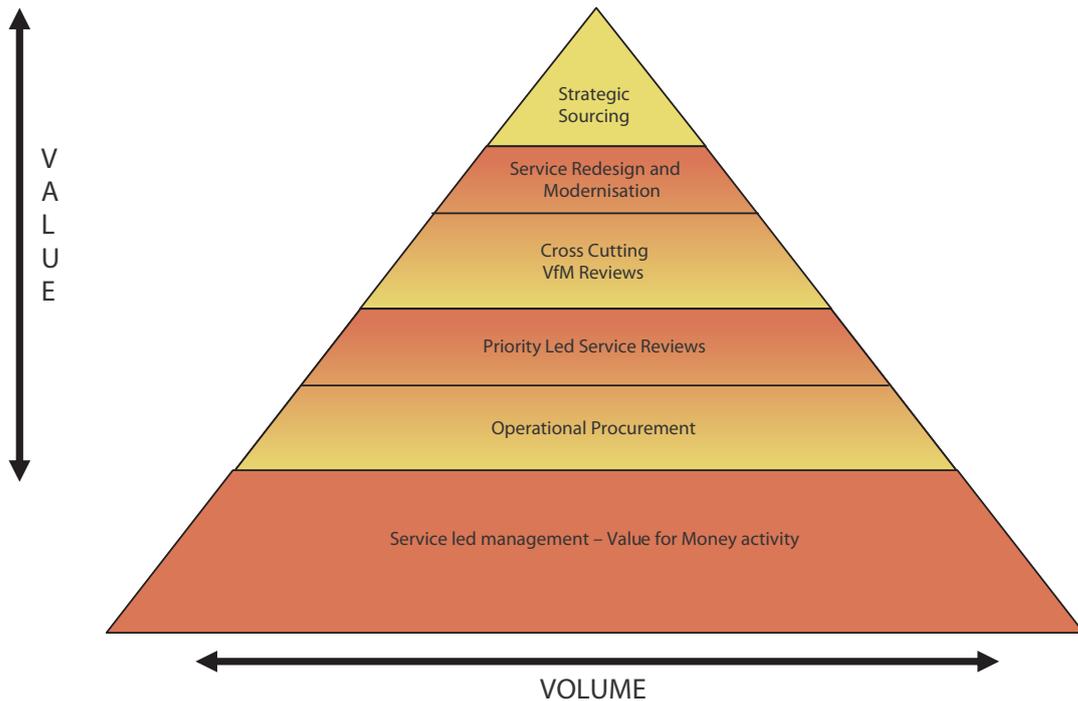
Each of these statutory targets was successfully achieved.

In addition to the above targets we are required to comply with the Better Payments Practice Code, which requires non NHS trade creditors to be paid within 30 days. Our performance against this target is set out in note 3.3 to the accounts.

Value for money

In achieving our financial targets we have adopted a variety of strategies for maximising the efficiency of our service delivery.

The diagram below shows the various approaches utilised ranging from high level strategic sourcing options to day to day low level value for money improvements led by operational managers and staff.



In particular during 2008/09 value for money savings were achieved by:

- The continued implementation and development of the CIP within the Prescription Services, automating many of the previously manual processes.
- Productivity increases in all areas of the NHSBSA's operations as a result of a range of business process improvement activities.
- Improved contract management and procurement practices.
- Continued reductions in back office services through the consolidation of support services.

Financial standing

The NHSBSA has total fixed assets of £47.604 million. Of this, £12.098 million relates to land and buildings that it owns, the balance relates to IT systems, software and developments and other plant and equipment.

The organisation has net current assets on its balance sheet of £66.973 million, this includes £65.227 million relating to the working capital balances of the NHSSC operation managed by DHL.

There were no post balance sheet events to report.

Future financial targets

The NHSBSA business plan sets out the agreed strategy for the organisation to continue to deliver against its financial targets. This will be achieved through a range of initiatives under the headings in the diagram above. In particular, the CIP will continue to deliver further savings and significant savings are also anticipated from the implementation of revised contractual arrangements for the processing of Dental Services claims and the managed IT infrastructure of the NHSBSA.

Pension costs for current staff

The treatment of pension liabilities and relevant pension scheme details are set out in the accounting policies note 1.9 to the financial statements and in the remuneration report on page 26.

Hosted Services

The NHSBSA provides a range of hosted financial and HR services to other NHS organisations and DH teams. The costs that we incur in providing these services, primarily staff costs, have been included within our operating expenditure as has the total income contributions received from these organisations to cover these costs.

Auditor

The Comptroller and Auditor General are appointed by statute to audit the NHSBSA. The audit fee for the year ended 31 March 2009 of £250k is for the audit of both these accounts and our agency accounts. An additional notional fee of £85k relates to the audit of the Pension Scheme accounts. There was no remuneration paid to the auditors for non-audit work during the year.

Accounting Officer's disclosure to the Auditors

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

Equality and diversity

The NHSBSA is committed to equality of opportunity for all employees and potential employees. Our aim is to create an environment in which individual differences and the contributions of all employees are recognised and valued and where everyone irrespective of race, gender, disability, sexual orientation, or religion and belief is treated with equity, dignity and respect.

We operate an Equality and Diversity Standing Committee with membership from across the organisation and equality and diversity awareness training will continue to be rolled out and is included in the induction for new employees. Additionally we have undertaken equality impact assessments of all policies and procedures across the organisation.

Sickness absence

We have one common absence management policy which covers the whole of the organisation and provides a consistent framework approach to management. The policy is underpinned by an externally provided occupational health service and employee assistance programme which is available 24 hours a day. Our overall level of sickness absence during 2008/09 was less than 4%.

Health and safety

The NHSBSA recognises and accepts its responsibilities with regard to health and safety. Significant improvements in the management of health and safety have been made throughout 2008/09, including policy development, co-ordination and consultation. Each of our business divisions has a trained co-ordinator in post whose role is to act as a conduit between the health and safety function and local management to support business services in the effective implementation of health, safety and well being policies. A new occupational health and employee assistance provider has been chosen and they will deliver an improved service to managers and represents better value for money.

A National Safety Committee with an agreed constitution and process protocols has been formulated and is the main vehicle for consultation and introduction of NHSBSA safety focus policies.

Communications

To support our clients and customers, it is important we communicate as effectively as possible. Our new customer-focused website was launched during 2008/09 and has provided more effective online communications than our previous web presence.

This will continue to be amended and updated as necessary based on feedback which we actively seek.

We audited our internal communications during last year and as a result have taken a number of actions to ensure continued improvement. 2009/10 will see the introduction of a new, regular quarterly newsletter and re-focussed Chief Executive's bulletin. We have also introduced a new, consistent design element to all our stationery, publications and reports to provide a more reliable message.

Complaints

The NHSBSA takes complaints seriously and believes in the value of learning from the complaints which are made about our staff and services to make improvements for our customers.

During 2008/09, a single complaints procedure and reporting process was introduced across the NHSBSA with the exception of NHS Pensions which is subject to specific statutory processes.

Business continuity planning

Business continuity planning is recognised as an important issue across our services. During 2008/09, we identified the critical business processes across the organisation and developed continuity plans for each.

Principal risks and uncertainty

Effective risk management is a cornerstone of good governance and the NHSBSA framework of procedures and internal controls contribute to mitigating and controlling the risks the organisation faces. It ensures that risk management is embedded in the way we conduct our activities.

Throughout 2008/09, the risk management system has become well embedded at service and corporate levels. During 2009/10, we will continue to review and update our systems and processes to ensure continued effectiveness.

Freedom of Information Act

As a SpHA we are subject to the requirements of the Freedom of Information Act (FOI) 2000. This means that all requests for information are responded to within the provisions of the act, typically within 20 working days. During 2008/09, we dealt with 748 FOI requests, all of which were responded to within the required timeframe. The number of requests has increased by 233 (45%) when compared to last year.

Looking after information

In the course of our business, we hold and use information about members of the public and NHS colleagues. Some of this information is of a personal and sensitive nature and as a consequence the NHSBSA has stringent controls in place to ensure the security of this information.

Information Governance is overseen for the whole of the NHSBSA by the Information Governance Steering Group, which is chaired by the NHSBSA's Director of Finance who is our Caldicott Guardian. The remit of the Caldicott Guardian is to ensure that any person identifiable information we hold is held and used properly.

The NHSBSA is subject to the Data Protection Act 1998 and has filed the appropriate notification with the Information Commissioner's Office.

As set out in the Statement on Internal control (SIC), three instances of data loss were reported during the year. None of these incidents were classed as significant and action has been taken to minimise the risk of repetition.

Property and Asset Management

We have enhanced the management of our property portfolio during 2008/09. A new Property Asset Management Group has been set up representing all aspects of the organisation which will oversee the further development of our Estates Strategy. The Estates Strategy aims to support the business by ensuring that our property portfolio is fit for purpose and that suitable buildings are available in the most appropriate locations to help us achieve service excellence and value for money in our operations. In support of this, the Strategy includes the following key principles:

- Migration from owning freehold properties to leasehold.
- Rationalisation of the number of properties in the portfolio.
- A drive towards 100% occupancy of those properties that are owned or leased.
- Shorter term leasing strategy.
- Disposal of any unwanted or duplicate accommodation following reorganisation.
- Improved space utilisation.
- Improved quality of office stock in line with best government practice.

Like other services, the estates service regularly benchmarks its performance against similar organisations. This results of this show that we are clearly in the upper quartile within the ALB sector and are achieving good value for money in the use of our buildings.

Sustainability

We have developed a Sustainable Development Action Plan aimed at ensuring we minimise our impact on the environment and ensure we take further positive steps in the following areas:

- Energy consumption.
- Water usage.
- Waste reduction.
- Transport and travel.
- Procurement

We have a Board level Champion for sustainability and have appointed a Sustainability Manager to continue to deliver on our commitment to this important

area and to embed our identified improvement actions.

Welsh Language Scheme

The NHSBSA has adopted the principle that when conducting public business in Wales, it will treat the English and Welsh languages on a basis of equality. To achieve this aim a Welsh Language Scheme has been prepared in accordance with the requirements of the Welsh Language Act 1993. The purpose of the scheme is to specify the measures we propose to take in order to give effect to the principle of equality.

Looking to the future

We will continue to face the challenges of the future with the same drive and commitment towards delivering our vision of service excellence and value for money.

We will focus on the needs of our customers and our clients, providing excellence in the range, quality and cost of our portfolio of services which support the NHS.

Specific, key challenges for the NHSBSA during 2009/10 will be:

- Commencement of the 3 year Choice programme within NHS Pensions;
- Continuing the rollout of the capacity improvement programme to deliver the expected service and financial benefits;
- Progressing the work to review and re-let the contract supporting our dental services and the wider IT infrastructure of the NHSBSA.
- Ensuring our workforce is fit to meet future challenges.

As ever, 2009/10 will be a challenging year in a difficult economic environment but we are confident that we can continue to deliver financial benefits which can be re-invested into front line NHS services.

Register of Interests

The NHS Code of Accountability requires Board members to declare any interests that are relevant and material to the NHS body of which they are a member. A register of declarations of interest is kept and maintained by the Corporate Secretary and is open to public inspection.

Interests which are regarded as “relevant and material” are:

- Directorships including non-executive directorships held in private companies or PLCs (with the exception of those of dormant companies)

of Groupe Steria SCA)
Board Member Guinness Midsummer Limited
Board Member Guinness Midsummer Homes Limited

Executive Directors

Nick Scholte Chief Executive	Non-Executive Director of Supporta plc
Roberta Barker Director of Human Resources	Non-Executive Director of Richmondshire Leisure Trust
Mike Siswick (Retired) Director of Human Resources	Chair of Corporate Governance Committee, NHS Connecting for Health (unremunerated)
John Smith Director of Finance	Nothing Declared
Jim Orr Commercial Director	Nothing Declared
Alistair McDonald Chief Operating Officer	Nothing Declared

Remuneration report

The remuneration of the Executive Directors is set by the Remuneration and Terms of Service Committee on behalf of the NHSBSA Board in conjunction with DH. The Committee is chaired by a Non-Executive Director of the Board together with two other Non-Executive Members, one of whom is the Chair of the Authority.

This report for the year ended 31 March 2009 is produced by the Board. The Remuneration and Terms of Service Committee has met on six occasions during the period 1 April 2008 to 31 March 2009.

Its remit is to deal with the remuneration, benefits and terms of service of the Chief Executive, Executive Directors and, exceptionally, any post which is equivalent to an Executive Director post and determined by the Remuneration Committee on the recommendation of the Chief Executive to be outside NHS (Agenda for Change) Pay Bands 1-9.

The remuneration of Executive Directors is reviewed annually by the Remuneration and Terms of Service Committee, taking account of national awards, central guidance and other relevant factors. The remuneration of Non-executive Directors is determined by the Secretary of State.

The NHSBSA, with the approval of the Department of Health's Pay and Performance Oversight Committee operates a Very Senior Managers pay framework. This framework provides access to an approved bonus scheme and payments under this scheme are considered in line with DH instruction. For 2008/09 the Executive Directors of the NHSBSA received a 5% bonus, on a collegiate basis, for achieving specified organisational objectives. This payment was agreed with the DH.

Appointments

Non-executive Directors are appointed by the Secretary of State for a term of either three or four years.

Executive Directors have standard NHS Very Senior Manager contracts of employment. There are no contractual clauses or other agreements for compensation in the event of early termination of office other than those provided by statutory requirements.

Emoluments of Board Members

The remuneration relating to all Directors in post in 2008/09 is detailed in the tables below which identify the salary, other payments and allowances and pension benefits applicable to both Executives and Non Executives. This information is subject to audit.

Non-executive Directors

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

Name and Title	2008-09			2007-08			Date of Appointment/Re-appointment	Appointment Ends
	Salary in £5k bands	2008-09 Other Remuneration in £5k bands	Benefits in Kind (rounded to the nearest £100)	Salary in £5k bands	2007-08 Other Remuneration in £5k bands	Benefits in Kind (rounded to the nearest £100)		
	£000	£000	£000	£000	£000	£000		
P Rich Chairman	60-65	0	0	60-65	0	0	1 Nov 2005	31 Oct 2009
M Harding Non Executive Director	5-10	0	0	5-10	0	0	1 Dec 2005 Reappointed 1 Dec 2008	30 Nov 2011
D Teale Non Executive Director	5-10	0	0	5-10	0	0	1 Dec 2005 Reappointed 1 Dec 2008	30 Nov 2011
D Hulf Non Executive Director	10-15	0	0	10-15	0	0	1 Dec 2005	30 Nov 2009
J Strachan Non Executive Director	5-10	0	0	5-10	0	0	1 Dec 2005 Reappointed 1 Dec 2008	30 Nov 2011
A Galbraith Non Executive Director	5-10	0	0	5-10	0	0	1 Apr 2006 Reappointed 1 Apr 2009	31 Mar 2012

Chief Executive and Senior Managers

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

Name and Title	2008-09			2007-08			Date of Contract Commencing	Contract Ends
	Salary in £5k bands	2008-09 Other Remuneration in £5k bands	Benefits in Kind (rounded to the nearest £100)	Salary in £5k bands	2007-08 Other Remuneration in £5k bands	Benefits in Kind (rounded to the nearest £100)		
	£000	£000	£000	£000	£000	£000		
N Scholte Chief Executive	155-160	0	5.7	145-150	0	8.6	1 Feb 2006	Permanent Contract (6 months notice)
R Barker Director of HR	50-55*	0	0	0	0	0	29 Sept 2008	Permanent Contract (6 months notice)
M Siswick (retired) Director of HR	50-55*	0	1.4	85-90	0	2.9	1 Feb 2006	Retired 30/09/08
W J Smith Director of Finance	110-115	0	3.6	100-105	0	3.4	1 Feb 2006	Permanent Contract (6 months notice)
J Orr Commercial Director	125-130	0	0	115-120	0	0	3 Jul 2006	Permanent Contract (6 months notice)
A McDonald Chief Operating Officer	110-115	0	3.7	100-105	0	3.5	1 May 2006	Permanent Contract (6 months notice)

Pension Benefits

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

Name and Title	Real Increase in pension at age 60 (bands of £2,500)	Real Increase in pension lump sum at aged 60 (bands of £2,500)	Total accrued pension at age 60 at 31 March 2009 (bands of £5,000)	Lump sum at age 60 related to accrued pension at 31 March 2009 (bands of £5,000)	Cash Equivalent Transfer Value at 31 March 2009	Cash Equivalent Transfer Value at 31 March 2008	Real Increase in Cash Equivalent Transfer Value	Employer's contribution to stakeholder pension
	£000	£000	£000	£000	£000	£000	£000	£000
N Scholte Chief Executive	2.5 – 5	7.5 – 10	40 – 45	120 – 125	746	502	162	0
R Barker Director of HR	0 – 2.5	0 – 2.5	0 – 5	0 – 5	9	0	6	0
M Siswick (retired) Director of HR	0 – 2.5	0 – 2.5	10 – 15	40 – 45	n/a	n/a	n/a	0
W J Smith Director of Finance	0 – 2.5	2.5 – 5	40 – 45	130 – 135	1,018	674	229	0
J Orr Commercial Director	0 – 2.5	5 – 7.5	20 – 25	70 – 75	548	374	116	0
A McDonald Chief Operating Officer	0 – 2.5	2.5 – 5	35 – 40	115–120	672	502	110	0

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

Cash Equivalent Transfer Value

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

The CETV figure and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS Pension Scheme.

They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

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

Nick Scholte
Chief Executive
NHS Business Services Authority
18 June 2009

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES

Under the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of Treasury, we are 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 our state of affairs at the year end and of its net resource outturn, recognised gains and losses and cash flows for the financial year.

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

In preparing the accounts, the Accounting Officer is required to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards had been followed and disclosed and explained any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless inappropriate to presume that the NHSBSA will continue in operation

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

STATEMENT ON INTERNAL CONTROL 2008/09

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS Business Services Authority's (NHSBSA) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money¹.

The NHSBSA manages a range of NHS business activities on behalf of the DH, and accountability arrangements with the DH comprise an overall Authority sponsor and specialist sponsors linking with the service streams. A clear ongoing accountability framework is established, which includes formal quarterly reviews of progress against objectives. The NHSBSA's Corporate Risk Register is shared and discussed at these reviews.

2. The system of internal control

The system of internal control is designed to manage the risk of failure to achieve business objectives to a reasonable level; it cannot therefore provide absolute assurance of effectiveness. Internal controls are designed to:

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

The system of internal control has been in place in the NHSBSA for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Board considers how to manage and mitigate corporate risks and those of the individual business streams. The Audit and Risk Management Committee (ARC) and the Head of Internal Audit and Risk Management support the Board in this. Internal control and risk management processes comprise:

- Approval of the Authority's strategy and business plans by both the Authority and the DH
- Authority standards, policies and processes for core business activities

¹ Published by HM Treasury 2007

- Clearly defined organisation structures and delegated authorities appropriate to the NHSBSA's business
- Regular management review processes

4. The risk and control framework

The Board sets its objectives systematically through corporate strategy and business planning, and identifies the key risks to delivery. The Leadership Team monitors and manages delivery of the business plan regularly, and progress against business plan objectives is a core element of NHSBSA's governance arrangements with the DH.

Since establishment, the Authority has worked to harmonise risk management and controls where appropriate. These arrangements include:

- A corporate risk management strategy
- The Board monitors progress with the management of its principal strategic risks through a corporate risk register, combining strategic and the most important operating risks
- The Leadership Team regularly reviews and updates the corporate risk register
- Business streams maintain risk registers that are reviewed regularly by the Leadership Team – significant emerging risks are added to the corporate register
- The ARC actively monitors developments in risk management
 - the Head of Internal Audit and Risk Management reports on activity in this area as a standing item on the Committee's agenda
 - the Committee regularly considers the corporate risk register
 - the Committee reviews the management assurance framework, which maps out the policies and procedures through which the Authority's risks are managed, quarterly
- The Leadership Team monitors the delivery of service objectives closely through a suite of critical KPIs in the form of a balanced scorecard. This is a key reason why we have invested heavily in the development of performance management systems across all areas of our business

The NHSBSA's business streams have well established internal controls appropriate to the delivery of their services, and the respective managing directors of the business streams have confirmed that these have remained in place during 2008/09.

The Head of Internal Audit provides me with an opinion on the overall arrangements for internal control and on the controls reviewed as part of the internal audit programme. Our internal audit service is delivering an effective service uniformly across all of the NHSBSA.

The Authority recognises that its assets include information, which it needs to maintain accurately and handle securely. An Information Governance Steering Group (IGSG) was established during 2007/08 to provide me with assurance in this area, and has met regularly during 2008/09, reporting to the Board through the ARC.

We are an employer with staff entitled to membership of the NHS Pension Scheme. Controls are in place to ensure all employer obligations contained within the Scheme regulations are met.

This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that members' records are accurately updated in accordance with required timescales.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways:

- I have clear performance management arrangements in place with directors at Leadership Team level. They in turn have developed arrangements for managing their responsibilities – a balance between empowering experienced teams with detailed business knowledge whilst maintaining clear accountabilities for delivery of agreed objectives.
- Business stream managers have provided me with letters of representation to underpin management and accountability arrangements to the effect that:
 - Internal controls have remained in place during the year
 - Financial information reported to the Authority is to the best of their knowledge correct
 - There is no material information of which they are aware that we have not also been made aware of
- Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance through management accountability and performance management arrangements
- The ARC has informed the Board about the outcome of its activities through submission of its minutes and its annual report to the Board

- As weaknesses emerge or are identified by internal or external audit reviews, action plans are put in place to address them. The ARC oversees progress with these plans
- During 2008/09 the NHSBSA has appointed a Local Counter Fraud Specialist to take forward the message that the Authority will not tolerate fraud

The Head of Internal Audit opinion for 2008/09 is '**significant assurance**²'. The internal audit projects undertaken have not identified any control issues that have had a critical impact on the delivery of services.

6. Control issues arising

During 2008/09 we continued to strengthen our arrangements for handling data securely. The IGSG has overseen a considerable improvement in information governance during 2007/08 and 2008/09. This is evidenced by our recent return on data security filed with the Department of Health, which shows significant improvement for the second successive year.

Notwithstanding our improving controls over information the NHSBSA did report 3 instances of data loss to DH during 2008/09. These were categorised as 1 minor, 2 medium and 0 significant. None of the reported incidents caused significant problems and each transfer of data involved has been either stopped or significantly strengthened. Robust arrangements are now generally in place, but our audit programme has identified areas where the need for further investment in controls may be necessary. We are currently evaluating the risks arising against the cost of further controls so that an informed decision can be made about further investment in controls.

At a late stage in the finalisation of the accounts for 2008/09 a potential liability was identified related to pension transfers which required the creation of a provision of £0.6 million. Although the issue to which the provision related was known and had been under discussion within the local management team, the financial consequences had not been fully assessed and escalated. This exposed a weakness in the NHSBSA's risk management, communications and year end assurance processes. It represents an isolated controls breakdown which has been addressed.

7. Conclusion

My review has confirmed that a framework of internal control and assurance has remained in place at the NHSBSA for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts. During 2008/09, no significant control issues have had a material impact on the delivery of services.

² There is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

The DH remains satisfied with our performance and progress and I am pleased to report that the NHSBSA has met all significant business objectives and further strengthened its overall control environment during 2008/09.

Nick Scholte
Chief Executive
NHS Business Services Authority

18 June 2009

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

I certify that I have audited the financial statements of NHS Business Services Authority for the year ended 31 March 2009 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and Secretary of State directions made thereunder.

I report to you whether, in my opinion, the information, which comprises Performance Measurement and Management, Our People, the Management Commentary and unaudited part of the remuneration report included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material

inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State, of the state of NHSBSA's affairs as 31 March 2009 and of its net resource out turn, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 the Secretary of State directions made thereunder; and
- information in the Annual Report which comprises Performance Measurement and Management, Our People, the Management Commentary and unaudited part of the remuneration report is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
23 June 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Operating Cost Statement for the year ended 31 March 2009

	Notes	2008-09 £000	2007-08 £000
Programme costs	3.1	688,061	663,841
Operating income	5	(481,335)	(474,371)
Net operating cost		206,726	189,470
Net resource outturn	4.1	206,726	189,470

All income and expenditure is derived from continuing operations

Statement of Recognised Gains and Losses for the year ended 31 March 2009

		2008-09 £000	2007-08 £000
Unrealised surplus/(deficit) on the indexation of fixed assets	13.2	0	1,359
Fixed asset impairment losses	13.4	(5,520)	0
Recognised gains and (losses) for the financial year		(5,520)	1,359

The notes at pages 44 to 72 form part of these accounts.

Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £000	31 March 2008 £000
Fixed assets:			
Intangible assets	6.1	1,111	1,723
Tangible assets	6.2	46,493	46,257
		<u>47,604</u>	<u>47,980</u>
Debtors: amounts falling due after more than one year	8	1,763	1,321
Current assets:			
Stocks	7	61,987	50,148
Debtors	8	105,077	84,389
Cash at bank and in hand	9	9,330	40,120
		<u>176,394</u>	<u>174,657</u>
Creditors: amounts falling due within one year	10.1	(109,421)	(104,917)
Net current assets/(liabilities)		<u>66,973</u>	<u>69,740</u>
Total assets less current liabilities		<u>116,340</u>	<u>119,041</u>
Creditors: amounts falling due after more than one year	10.2	0	(237)
Provisions for liabilities and charges	11	(3,135)	(2,638)
		<u>113,205</u>	<u>116,166</u>
Taxpayers' equity			
General Fund	13.1	110,555	107,996
Revaluation reserve	13.2	2,650	8,170
		<u>113,205</u>	<u>116,166</u>

The notes at pages 44 to 72 form part of these accounts.

Nick Scholte
Chief Executive and Accounting Officer
18 June 2009

Cash Flow Statement for the year ended 31 March 2009

		2008-09	2007-08
	Notes	£000	£000
Net cash (outflow) from operating activities	14	(222,285)	(160,219)
Capital expenditure and financial investment:			
(Payments) to acquire intangible fixed assets		(207)	(186)
(Payments) to acquire tangible fixed assets		(14,248)	(12,682)
Receipts from disposal of tangible fixed assets		5	(178)
Net cash inflow/(outflow) from investing activities		(14,450)	(13,046)
Net cash (outflow) before financing		(236,735)	(173,265)
Financing			
Net Parliamentary funding	13.1	206,050	197,064
Increase/(decrease) in cash in the period	9	(30,685)	23,799

The notes at pages 44 to 72 form part of these accounts.

Notes to the Accounts

1 Accounting policies

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

1.1 Accounting Conventions

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

Acquisitions and Discontinued Operations

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

1.2 Income

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

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

The main source of funding for the Supply Chain trading division of the Authority is income from sales to NHS customers. Additional income comes from similar sales to non-NHS customers.

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 2008-09 was 3.5% (2007-08 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1.5 Fixed Assets

a. Capitalisation

All assets falling into the following categories are capitalised:

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

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

All land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of indices. The buildings index is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office. Indexation may not be applied where there is an indication that the value of land and buildings may have decreased during the year. In this circumstance an impairment review will be performed.

Professional valuations are carried out by the District Valuers of the Revenue and Customs Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied on the 31 March 2005.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect

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

Gains arising from indexation and revaluations are taken to the Revaluation Reserve. Losses arising from revaluation are recognised as impairments and are charged to the revaluation reserve to the extent that a balance exists in relation to the revalued asset. Losses in excess of that amount are charged to the current year's Operating Cost Statement (OCS).

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

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
 - no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
 - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment, other than IT equipment which is considered to have nil inflation, is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
- iv All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

c. Depreciation and Amortisation

Depreciation is charged on each individual fixed asset as follows:

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets but not exceeding 20 years.

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

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

1.6 Stocks

Stocks are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks.

1.7 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).

1.8 Pension costs

NHS Pension Scheme

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.pensions.nhsbsa.nhs.uk. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the

direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

Scheme provisions as at 31 March 2008

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

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/member can make contributions to enhance an employee’s pension benefits. The benefits payable relate directly to the value of the investments made.

Scheme provisions from 1 April 2008

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website www.pensions.nhsbsa.nhs.uk.

Principal Civil Service Pension Scheme

Some past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit elements of the scheme are unfunded and non-contributory except in

respect of dependents' benefits. The Authority recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the scheme, the Authority recognises the contributions payable for the year.

1.9 Research and Development

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

1.10 Leases

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

1.11 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.

1.12 Financial Instruments

- **Financial assets**

Financial assets are recognised on the balance sheet when the Authority becomes party to the financial instrument contract or, in the case of trade debtors, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

- Financial assets are initially recognised at fair value.

Financial assets are classified into the following categories: financial assets ‘at fair value through profit and loss’; ‘held to maturity investments’; ‘available for sale’ financial assets, and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

- Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the operating cost statement. The net gain or loss incorporates any interest earned on the financial asset.

- Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

- Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the operating cost statement on de-recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

At the balance sheet date, the Authority assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the operating cost statement and the carrying amount of the asset is reduced directly, or through a provision for impairment of debtors.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the operating cost statement to the extent that the carrying amount of the debtor at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

- **Financial liabilities**

Financial liabilities are recognised on the balance sheet when the Authority becomes party to the contractual provisions of the financial instrument or, in the case of trade creditors, when the goods or services have been received. Financial liabilities are derecognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or other financial liabilities.

- Financial liabilities at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the operating cost statement. The net gain or loss incorporates any interest earned on the financial asset.

- Other financial liabilities

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

2. Supply Chain Trading

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

From 1 October 2006 the previously in-house service was outsourced to an external provider. Under the outsourcing arrangement, all trading related administration expenditure is met by the service provider and is funded from the trading surplus. All non-trading income and expenditure relating to the Supply Chain Management Division is now included in the Authority's Operating Cost Statement.

2.1 Surplus/(deficit) from Supply Chain Trading Activity

	2008-09 £000	2007-08 £000
Gross income		
Sales to NHS Customers	986,323	845,639
Sales to Non-NHS Customers	23,677	33,909
Fees and other income	2,500	0
	1,012,500	879,548
Cost of sales and administration		
Cost of Sales	893,370	787,078
Main service provider contract	119,130	92,470
	1,012,500	879,548
Net trading surplus for the period	0	0

2.2 Supply Chain staff numbers and related costs

Under the outsourcing arrangement that began on 1 October 2006, all trading related staff transferred to the service provider.

3.1 Authority programme expenditure

	Notes	£000	2008-09 £000	2007-08 £000
Non-executive members' remuneration			116	113
Other salaries and wages	3.2		72,674	74,673
Establishment expenses			10,554	10,354
Transport and moveable plant			947	940
Premises and fixed plant			16,173	16,599
External contractors			21,448	18,912
Capital: Depreciation and amortisation	6.1, 6.2	9,124		6,566
Impairments	6.1, 6.2	180		0
Capital charges interest		3,150		2,921
(Profit)/loss on disposal	6.4	2		214
			12,456	9,701
Auditor's remuneration: Audit Fees*			250	250
Redundancies			14,321	8,509
Miscellaneous			6,573	6,281
NHS Bursary Scheme			465,607	461,679
Social Work Bursaries			66,942	55,830
			688,061	663,841

* Audit fees include £30k in respect of IFRS, £15k of this relates to Trigger Points 3 and 4 which will be audited in September.

Miscellaneous expenditure includes the following significant amounts:

	2008-09 £000	2007-08 £000
Professional fees	5,642	4,373
Notional fee for the audit of the Pension Scheme accounts	85	75
	5,727	4,448

3.2 Staff numbers and related costs

	2008-09 Total £000	Permanently employed staff £000	Other £000	2007-08 £000
Salaries and wages	66,312	61,157	5,155	67,151
Social security costs	4,527	4,527	0	4,592
Employer contributions to NHSPA	6,050	6,050	0	6,314
Other pension costs	964	964	0	1,030
	<u>77,853</u>	<u>72,698</u>	<u>5,155</u>	<u>79,087</u>
Capitalised staff costs	<u>(5,179)</u>			<u>(4,414)</u>
	<u>72,674</u>			<u>74,673</u>

The SpHA cost of redundancies and early retirements as a result of reorganisation was £14,321k (2007-08 £8,509k)

The average number of employees during the year was:

	Total Number	Permanently employed staff Number	Other Number	2007-08 Number
Total	<u>2,694</u>	<u>2,525</u>	<u>169</u>	<u>2,818</u>

The whole time equivalent number of staff whose cost was capitalised was 115 (2007-08: 99)

Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £Nil (2007-08: £Nil).

Retirements due to ill-health

During 2008-09 there were no early retirements from the Special Health Authority on the grounds of ill-health.

3.3 Better Payment Practice Code – measure of compliance

	Number	£000
Total non NHS bills paid 2008-09	1,444,674	996,803
Total non NHS bills paid within target	282,613	332,721
Percentage of non NHS bills paid within target	<u>19.6%</u>	<u>33.4%</u>
Supply Chain performance		
Total non NHS bills paid 2008-09	1,424,455	924,059
Total non NHS bills paid within target	263,936	265,850
Percentage of non NHS bills paid within target	<u>18.5%</u>	<u>28.8%</u>
Other divisions performance		
Total non NHS bills paid 2008-09	20,219	72,744
Total non NHS bills paid within target	18,677	66,871
Percentage of non NHS bills paid within target	<u>92.4%</u>	<u>91.9%</u>
Total NHS bills paid 2008-09	196	3,926
Total NHS bills paid within target	175	3,874
Percentage of NHS bills paid within target	<u>89.3%</u>	<u>98.7%</u>
Supply Chain performance		
Total NHS bills paid 2008-09	0	0
Total NHS bills paid within target	0	0
Percentage of NHS bills paid within target	<u>100%</u>	<u>100%</u>
Other divisions performance		
Total NHS bills paid 2008-09	196	3,926
Total NHS bills paid within target	175	3,874
Percentage of NHS bills paid within target	<u>89.3%</u>	<u>98.7%</u>

NHS Supply Chain performance is disclosed with reference to the 30 day target in the Better Payment Code of Practice. This is consistent with the rest of the Business Service Authority and with prior year comparatives however NHS Supply Chain is entitled to agree extended payment terms with suppliers. NHS Supply Chain compliance with contractually agreed payment terms is higher than against this 30 day target and is within the creditor day performance criteria defined in the Master Services Agreement.

The Late Payment of Commercial Debts (Interest) Act 1998

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

4.1 Reconciliation of net operating cost to net resource outturn

	2008-09 £000	2007-08 £000
Net operating cost	206,726	189,470
(Surplus)/Deficit from SCMD trading activity	0	0
Net resource outturn	206,726	189,470
Revenue resource limit	206,873	189,756
(Over)/under spend against revenue resource limit	147	286

4.2 Reconciliation of gross capital expenditure to capital resource limit

	2008-09 £000	2007-08 £000
Gross capital expenditure	14,455	12,868
NBV of assets disposed	(7)	(36)
Net capital resource outturn	14,448	12,832
Capital resource limit	16,573	13,700
(Over)/under spend against limit	2,125	868

5 Operating income

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

	Appropriated in aid £000	Not Appropriated in aid £000	Total £000	2007-08 £000
Programme income:				
Fees & charges to external customers	10,199	0	10,199	7,862
Income received from Scottish Parliament	501	0	501	773
Income received from National Assembly for Wales	600	0	600	655
Income received from Northern Ireland Assembly	0	0	0	0
Income received from other Departments, etc	0	0	0	695
Other	0	470,035	470,035	464,386
Total	11,300	470,035	481,335	474,371

6.1 Intangible fixed assets

	Software licences £000	Development expenditure £000	Total £000
Gross cost at 31 March 2008	4,543	283	4,826
Indexation	0	0	0
Impairments	0	0	0
Other revaluations	0	0	0
Additions - purchased	69	138	207
Additions - donated	0	0	0
Reclassification	47	0	47
Disposals	0	0	0
Gross cost at 31 March 2009	4,659	421	5,080
Accumulated amortisation at 31 March 2008	3,027	76	3,103
Indexation	0	0	0
Impairments	0	0	0
Other revaluations	0	0	0
Charged during the year	761	90	851
Reclassification	15	0	15
Disposals	0	0	0
Accumulated amortisation at 31 March 2009	3,803	166	3,969
Net book value:			
Purchased at 31 March 2008	1,516	207	1,723
Donated at 31 March 2008	0	0	0
Total at 31 March 2008	1,516	207	1,723
Net book value:			
Purchased at 31 March 2009	856	255	1,111
Donated at 31 March 2009	0	0	0
Total at 31 March 2009	856	255	1,111
Net book value at 31 March 2008			
Supply Chain	0	0	0
Other Divisions	1,516	207	1,723
	1,516	207	1,723
Net book value at 31 March 2009			
Supply Chain	0	0	0
Other Divisions	856	255	1,111
	856	255	1,111

6.2 Tangible fixed assets

	Land	Buildings exc dwellings	Dwellings	Assets under constr. + poa	Plant and machinery	Transport equipment	Information technology	Furniture & fitting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2008	5,277	13,212	0	8	3,125	764	48,338	2,669	73,393
Additions – purchased	0	1,106	0	0	0	0	13,139	3	14,248
Additions – donated	0	0	0	0	0	0	0	0	0
Impairments	0	(5,520)	0	0	0	0	0	0	(5,520)
Reclassification	0	0	0	(8)	0	0	(39)	0	(47)
Indexation	0	0	0	0	0	0	0	0	0
Other in year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(71)	(50)	0	0	(121)
Gross cost at 31 March 2009	5,277	8,798	0	0	3,054	714	61,438	2,672	81,953
Accumulated depreciation at 31 March 2008		0	0		2,366	467	22,821	1,482	27,136
Charged during the year		544	0		90	81	7,316	242	8,273
Impairments		180	0		0	0	0	0	180
Reclassification		0	0		0	0	(15)	0	(15)
Indexation		0	0		0	0	0	0	0
Other in year revaluation		0	0		0	0	0	0	0
Disposals		0	0		(70)	(44)	0	0	(114)
Accumulated depreciation at 31 March 2009		724	0		2,386	504	30,122	1,724	35,460
Net book value:									
Purchased at 31 March 2008	5,277	13,212	0	8	759	297	25,517	1,187	46,257
Donated at 31 March 2008	0	0	0	0	0	0	0	0	0
Total at 31 March 2008	5,277	13,212	0	8	759	297	25,517	1,187	46,257
Net book value:									
Purchased at 31 March 2009	5,277	8,074	0	0	668	210	31,316	948	46,493
Donated at 31 March 2009	0	0	0	0	0	0	0	0	0
Total at 31 March 2009	5,277	8,074	0	0	668	210	31,316	948	46,493
Net book value at 31 March 2008									
Supply Chain	0	0	0	0	0	0	0	0	0
Other Divisions	5,277	13,212	0	8	759	297	25,517	1,187	46,257
	5,277	13,212	0	8	759	297	25,517	1,187	46,257
Net book value at 31 March 2009									
Supply Chain	0	0	0	0	0	0	0	0	0
Other Divisions	5,277	8,074	0	0	668	210	31,316	948	46,493
	5,277	8,074	0	0	668	210	31,316	948	46,493

In light of the vacation and planned sale of a number of properties, along with the downward trend in the property market, an impairment review was carried out on the carrying values of land and buildings. As a result of this review, the carrying value of buildings has been reduced by £5.70m. £5.52m of this reduction was taken to the Revaluation Reserve and the remaining £0.18m charged to the Operating Cost Statement.

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

6.3 Net Book Value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2009 comprises:

	31 March 2009 £000	31 March 2008 £000
Freehold	12,098	18,172
Long leasehold	1,056	29
Short leasehold	197	288
	<u>13,351</u>	<u>18,489</u>

6.4 Profit/(loss) on disposal of fixed assets

	2008-09 £000	2007-08 £000
Profit on disposal of intangible fixed assets	0	0
(Loss) on disposal of intangible fixed assets	0	0
Profit on disposal of land and buildings	0	0
(Loss) on disposal of land and buildings	0	(212)
Profit on disposal of plant and equipment	0	0
(Loss) on disposal of plant and equipment	(2)	(2)
	<u>(2)</u>	<u>(214)</u>

Profit/(loss) was split as follows:

	2008-09 £000	2007-08 £000
Supply Chain	0	0
Other Divisions	(2)	(214)
	<u>(2)</u>	<u>(214)</u>

7 Stocks and work in progress

	2008-09	2007-08
	£000	£000
Raw materials and consumables	0	0
Work in progress	0	0
Finished processed goods	61,987	50,148
	<u>61,987</u>	<u>50,148</u>

Stocks were split as follows:

	2008-09	2007-08
	£000	£000
Supply Chain	61,987	50,148
Other Divisions	0	0
	<u>61,987</u>	<u>50,148</u>

8 Debtors

8.1 Amounts falling due within one year

	2008-09	2007-08
	£000	£000
Trade debtors	80,238	58,259
Provision for irrecoverable debts	(5,665)	(4,630)
Prepayments	5,308	10,074
Accrued income	1,973	2,014
Capital debtors	0	0
Other debtors	23,223	18,672
	<u>105,077</u>	<u>84,389</u>

8.2 Amounts falling due after more than one year

	£000	£000
Trade debtors	0	0
Prepayments	0	0
Accrued income	0	0
Capital debtors	0	0
Other debtors	1,763	1,321
	1,763	1,321
Total debtors	106,840	85,710

Debtors were split as follows:

	2008-09 £000	2007-08 £000
Supply Chain	88,163	65,344
Other Divisions	18,677	20,366
	106,840	85,710

All Supply Chain debtors fall due within one year.

9 Analysis of changes in cash

	At 31 March 2008 £000	Change during the year £000	At 31 March 2009 £000
Cash at OPG	40,115	(30,846)	9,269
Cash at commercial banks and in hand	(100)	161	61
	40,015	(30,685)	9,330
Cash at bank and in hand	40,120	(30,790)	9,330
Overdrafts	(105)	105	0
	40,015	(30,685)	9,330

Cash movements were split as follows:

	At 31 March 2008 £000	Change during the year £000	At 31 March 2009 £000
Supply Chain	36,603	(34,062)	2,541
Other Divisions	3,412	3,377	6,789
	40,015	(30,685)	9,330

10 Creditors:

10.1 Amounts falling due within one year

	2008-09 £000	2007-08 £000
Overdrafts	0	105
Trade creditors	55,653	64,256
Capital creditors	17	308
Tax	2	2
Social Security	(1)	5
Other creditors	2,370	2,898
Accruals	49,881	34,561
Deferred income	1,499	2,782
	<u>109,421</u>	<u>104,917</u>

Creditors were split as follows:

	2008-09 £000	2007-08 £000
Supply Chain	87,464	86,868
Other Divisions	21,957	18,049
	<u>109,421</u>	<u>104,917</u>

10.2 Amounts falling due after more than one year

	£000	£000
Trade creditors	0	0
Capital creditors	0	0
Tax	0	0
Social Security	0	0
Other creditors	0	0
Accruals	0	0
Deferred income	0	237
	<u>0</u>	<u>237</u>

Creditors were split as follows:

	2008-09 £000	2007-08 £000
Supply Chain	0	0
Other Divisions	0	237
	<u>0</u>	<u>237</u>

11 Provisions for liabilities and charges

	Pensions for former staff	Legal claims	Other	Total
	£000	£000	£000	£000
At 31 March 2008	2,130	179	329	2,638
Arising during the year	0	67	638	705
Utilised during the year	(123)	(68)	0	(191)
Reversed unused	(14)	(3)	0	(17)
Change in the discount rate	0	0	0	0
Unwinding of discount	0	0	0	0
At 31 March 2009	1,993	175	967	3,135

Expected timing of cash flows:

Within 1 year	144	175	728	1,047
1-5 years	472	0	239	711
Over 5 years	1,377	0	0	1,377

Provisions were split as follows:

	2008-09	2007-08
	£000	£000
Supply Chain	175	179
Other Divisions	2,960	2,459
	3,135	2,638

12 Movements in working capital other than cash

	2008-09	2007-08
	£000	£000
Increase/(decrease) in stocks	11,839	11,299
Increase/(decrease) in debtors	21,130	(8,873)
(Increase)/decrease in creditors	(4,372)	(22,745)
	28,597	(20,319)

13 Movements on reserves

13.1 General Fund

	2008-09 £000	2007-08 £000
Balance at 31 March 2008	107,996	97,400
Net operating costs for the year	(206,726)	(189,470)
Net Parliamentary funding	206,050	197,064
Transfer of realised profits/losses from revaluation reserve	0	6
Non-cash items: Capital charge interest	3,150	2,921
Notional costs	85	75
Balance at 31 March 2009	110,555	107,996

13.2 Revaluation reserve

	2008-09 £000	2007-08 £000
Balance at 31 March 2008	8,170	6,818
Impairments	(5,520)	0
Indexation of fixed assets	0	1,359
Revaluation of fixed assets	0	0
Transfer to general fund/capital reserve of realised elements	0	(7)
Balance at 31 March 2009	2,650	8,170

14 Reconciliation of operating costs to operating cash flows

		2008-09 £000	2007-08 £000
Net operating cost before interest for the year		206,726	189,470
Adjust for non-cash transactions	3.1	(12,541)	(9,769)
Adjust for movements in working capital other than cash	12	28,597	(20,319)
(Increase)/decrease in provisions	11	(497)	837
Net cash outflow from operating activities		222,285	160,219

15 Contingent liabilities

At 31 March 2009, there were no known contingent liabilities (2007-08: £nil).

16 Capital commitments

At 31 March 2009 the value of contracted capital commitments was £nil (2007-08: £nil).

17 Commitments under operating leases

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

	2008-09	2007-08
	£000	£000
Hire of plant and machinery	0	0
Other operating leases	3,280	3,454
	3,280	3,454

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.

	£000	£000
Land and buildings		
Operating leases which expire: within 1 year	626	350
between 1 and 5 years	1,798	2,580
after 5 years	395	0
	2,819	2,930
Other leases		
Operating leases which expire: within 1 year	14	38
between 1 and 5 years	0	14
after 5 years	0	0
	14	52

18 Other commitments

The Pensions Division of the Authority has entered into non-cancellable contracts (which are not operating leases) for the provision of contracted out services totalling £66.4m over 8 years as at 31 March 2009. (2008: £74.8m).

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

On 1 February 2006 the contract with R R Donnelly Ltd was extended and 96 staff transferred under the TUPE arrangements. The extension involves payments of £17.8 million in the period to 31 December 2009.

19 Losses and special payments

There were 1,832 cases of losses and special payments (Prior year : 13,157 cases) totalling £617,886 (Prior year £2,065,672) approved during 2008-09.

20 Related parties

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

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

21 Post balance sheet events

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

The Annual Report and Accounts has been authorised for issue on 29 June 2009 by the NHSBSA Chief Executive and Accounting Officer.

22 Financial Instruments

Financial risk management

FRS29 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the way Special Health Authorities are financed, the 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 listed companies, to which these standards mainly apply. The Authority has no 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 Authority in undertaking its activities.

The Authority's treasury management operations are carried out by the finance department, within parameters defined formally within the Authority's Standing Financial Instructions and policies agreed by the Board of Directors. Authority treasury activity is subject to review by the Authority's internal auditors.

Currency risk

The Authority is principally a domestic organisation with the great majority of transactions, assets and liabilities being in the UK and Sterling based. The Authority has no overseas operations. The Authority therefore has negligible foreign currency income or expenditure.

Credit Risk

The nature of the Authority's business means that it has low exposure to credit risk. The maximum exposures as at 31 March 2009 are in debtors, as disclosed in the Debtors note.

Liquidity risk

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

Interest rate risk

All of the Authority's financial assets and financial liabilities carry nil or fixed rates of interest. The 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:

22.1 Financial assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing
	£000	£000	£000	£000
At 31 March 2009				
Sterling	11,093	0	0	11,093
Other	0	0	0	0
Gross financial assets	11,093	0	0	11,093
At 31 March 2008				
Sterling	41,441	0	0	41,441
Other	0	0	0	0
Gross financial assets	41,441	0	0	41,441

22.2 Financial liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing
	£000	£000	£000	£000
At 31 March 2009				
Sterling	3,135	0	3,135	0
Other	0	0	0	0
Gross financial liabilities	3,135	0	3,135	0
At 31 March 2008				
Sterling	2,980	0	2,980	0
Other	0	0	0	0
Gross financial liabilities	2,980	0	2,980	0

Note (a):

The Authority's financial liabilities comprise provisions under contract discounted at the fixed treasury rate of 2.2%.

22.3 Fair Values

Fair values of financial assets and financial liabilities do not differ from the carrying amounts.

22.4 Financial assets

	At fair value through profit and loss £000	Loans and receivables £000	Available for sale £000	Total £000
Embedded derivatives	0	0	0	0
Trade debtors	0	0	0	0
Other debtors	0	0	0	0
Cash at bank and in hand	0	9,330	0	9,330
Other financial assets	0	1,763	0	1,763
Total at 31 March 2009	0	11,093	0	11,093

22.5 Financial liabilities

	At fair value through profit and loss £000	Other £000	Total £000
Embedded derivatives	0	0	0
Trade creditors	0	0	0
Other creditors	0	0	0
Borrowings	0	0	0
PFI and finance lease obligations	0	0	0
Other financial liabilities	0	3,135	3,135
Total at 31 March 2009	0	3,135	3,135

23 Intra-government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors Amounts falling due within one year £000	Creditors Amounts falling due after more than one year £000
Balances with other central government bodies	15,428	–	13	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	63,714	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	25,935	1,763	109,408	–
At 31 March 2009	105,077	1,763	109,421	–
Balances with other central government bodies	14,488	–	235	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	47,618	–	48	–
Balances with public corporations and trading funds	207	–	2	–
Balances with bodies external to government	22,076	1,321	103,861	237
At 31 March 2008	84,389	1,321	104,146	237



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