

Annual Report and Accounts **2004/5**



The Agency's aims, objectives and role

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

The Agency's aim is to:

- modernise and improve the performance of the NHS purchasing and supply system and become the centre of expertise, knowledge and excellence on matters of purchasing and supply for the NHS for the benefit of patients and public.

The Agency's objectives are to:

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

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

The Agency's role is to:

- develop purchasing and supply policy for the NHS
- lead and implement fundamental change in the management of purchasing and supply across the NHS in England.

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Chief Executive's statement



This year has seen great changes for many of the Department of Health's Arms Length Bodies (ALBs). The review published in July 2004 heralded the start of a new and even more focused role for my Agency.

Agency re-organisation

The Agency has been accepted as a service of critical value to the NHS but, to continue to provide an expert role, changes needed to be made to the structure of the organisation. It is recognized that new roles with different skills and knowledge need to be developed if we are to be a world-class organisation staffed with people with world-class skills.

On 1 April 2005, the Agency introduced a new organisational structure to reflect this change in direction. The changes are radical and ensure we are positioned to undertake a stronger and more focused national role in all areas critical to NHS purchasing and supply activity.

The restructuring of the Agency has been driven by several critical factors, which means we need to:

- introduce new functions and processes to ensure delivery of savings under the Supply Chain Excellence Programme
- contribute to the ALB review and be positioned to take on additional responsibilities
- introduce new functions and roles to support the successful delivery of collaborative procurement hubs and maturity of confederations.

In future the Agency is likely to take on additional procurement related activities as a result of the ALB review. The Procurement Policy Advisory Unit (PPAU) has already transferred from the Department of Health and responsibility for the Device Evaluation Service (DES) is

expected to transfer to the Agency's remit in October 2005.

This re-organisation is a further strand of the Supply Chain Excellence Programme which began in April 2004.

The other elements of this programme are:

National contracts procurement project

In April 2004, teams from the Agency and external consultants were combined to address new sourcing techniques for ranges of products and services (categories). Eleven categories were chosen with an annual spend of around £1 billion and a savings opportunity of £97 million identified.

This phase of activity was described as 'wave 1', with two further waves planned for completion in 2005/6. The total spend to be addressed was around £4 billion with an annualised savings target of £240 million by 2007/8.

One specific example of success has been the employment of reverse auctions in appropriate categories. Planning for wave 2 is currently under way.

Some of these sourcing initiatives have resulted in contracting being carried out at national rather than regional level. We are committed to working with industry to ensure that all parties are fully aware of the implications of the project and that suppliers are engaged during the planning process.

A new and vital piece of work currently being pursued by the Agency is benefits tracking, i.e. providing the NHS with exact detail of the savings and how their achievement can be measured.

Collaborative procurement hubs project

During 2004/5 there has been considerable activity towards meeting the business case

target of getting 100% of trusts working in confederations plus 50% of confederations having a fully resourced business case and structure agreed.

A restructuring of the responsibilities within the Agency during April 2004 resulted in each government region receiving support from an Agency director. We established a change unit to provide resource and strategic direction for confederation development, including regional development managers to work directly with confederations. In addition, a number of staff from the Agency continue to be on secondment to confederations in order to further help their development.

During 2004, work began on a project to create collaborative procurement hubs. This built on the Agency's work with confederations. The objectives of the project are to:

- develop a model for efficient and effective collaborative supply management to be adopted by trusts across the NHS; this is to achieve standard deployment of resources, building upon best practice from existing confederations and external knowledge, and focusing on rapid achievement of benefits
- release annual savings of £270 million, after full roll out of collaborative procurement hubs
- support innovation and 'good corporate citizenship'.

Three pathfinders were selected – Healthcare Purchasing Consortium, Shropshire and Staffordshire, and Greater Manchester – and a second wave of candidates will be identified during 2005/6.

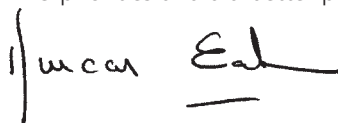
Market testing the proposal to outsource the consumable supply chain and procurement services for the NHS

In July 2004, the Secretary of State approved the placing of an OJEU advertisement to begin the process of investigating the potential for private sector partnering (outsourcing) of the supply chain function of NHS Logistics – together with the consumables procurement functions of the Agency.

Bidding and evaluation is a two stage process with responses to the Invitation to Submit an Outline Proposal (ISOP) received in January 2005. The Agency is represented within the project governance structure by the Chief Executive and also at director level. Purchasing teams within the Agency will continue to support NHS Logistics' business throughout the planning year. This entails providing purchasing services, catalogue price proposals and the management of data for over 40,000 product lines.

In addition to working through all the major changes brought about by SCEP we have once again achieved all our business targets – these are shown in more detail in the next section of the report. We have also exceeded our targets on purchasing savings and the value of our contracts has grown year on year.

The underlying theme for this year's annual report must surely be about making positive changes and, by working together with all our stakeholders, being able to move NHS purchasing and supply expertise to new levels. In this way we will be able to support NHS priorities and aid better patient care.



Duncan Eaton
Chief Executive

Performance against business plan targets 2004/5



Target 1 – savings 2004/5

Achieve at least 7% of the total value of the Agency's contract portfolio – outside of the wave 1 sourcing groups.

Position at end of year

The overall Business Plan target percentage for 2004/5 was 6.85%. The savings % achieved for the year was 9.31%. The Agency exceeded its forecast and achieved savings of £339million. The total contract value was £3.6billion.

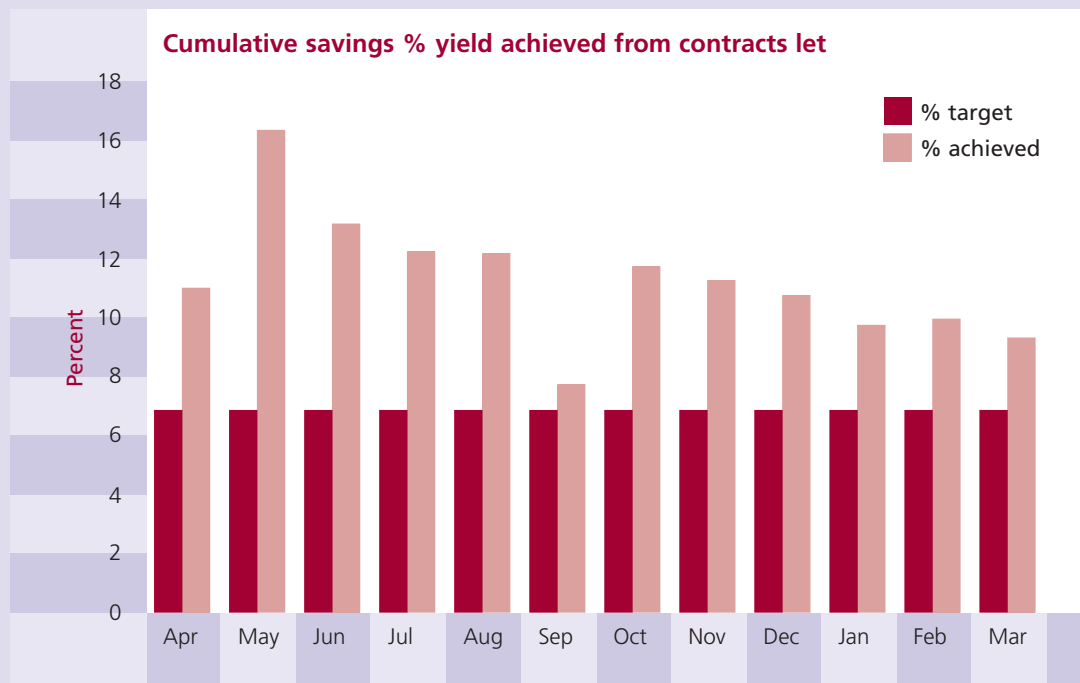
It is worth noting that each directorate achieved and marginally exceeded the Business Plan target, based on actual and estimated savings for the year. Of the £339million, 53% was actual savings

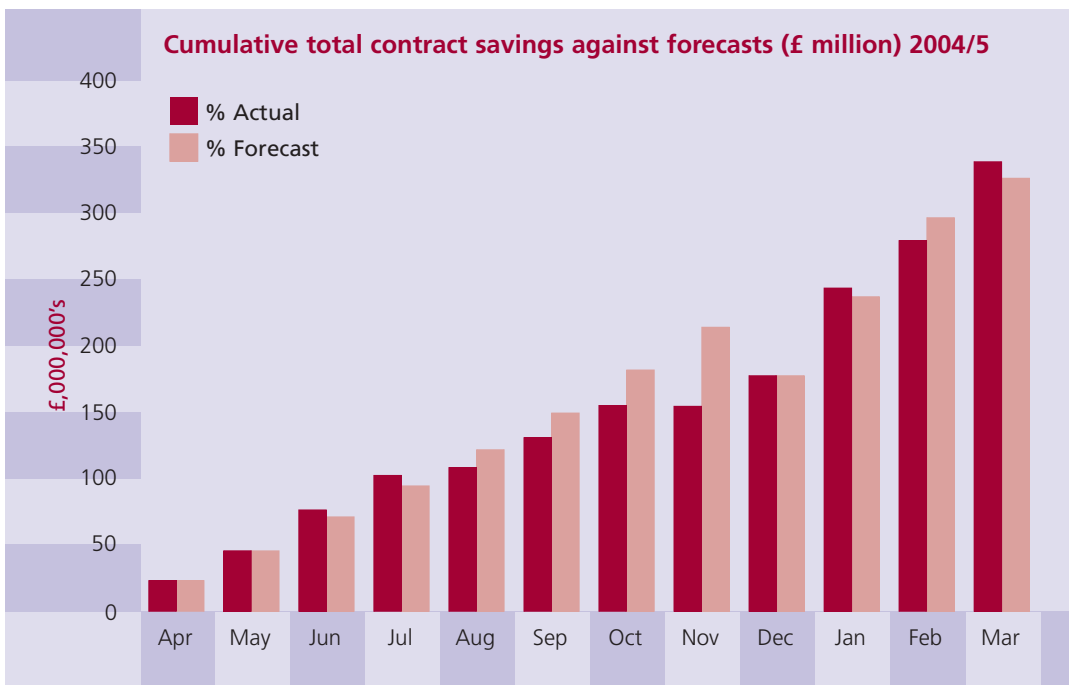
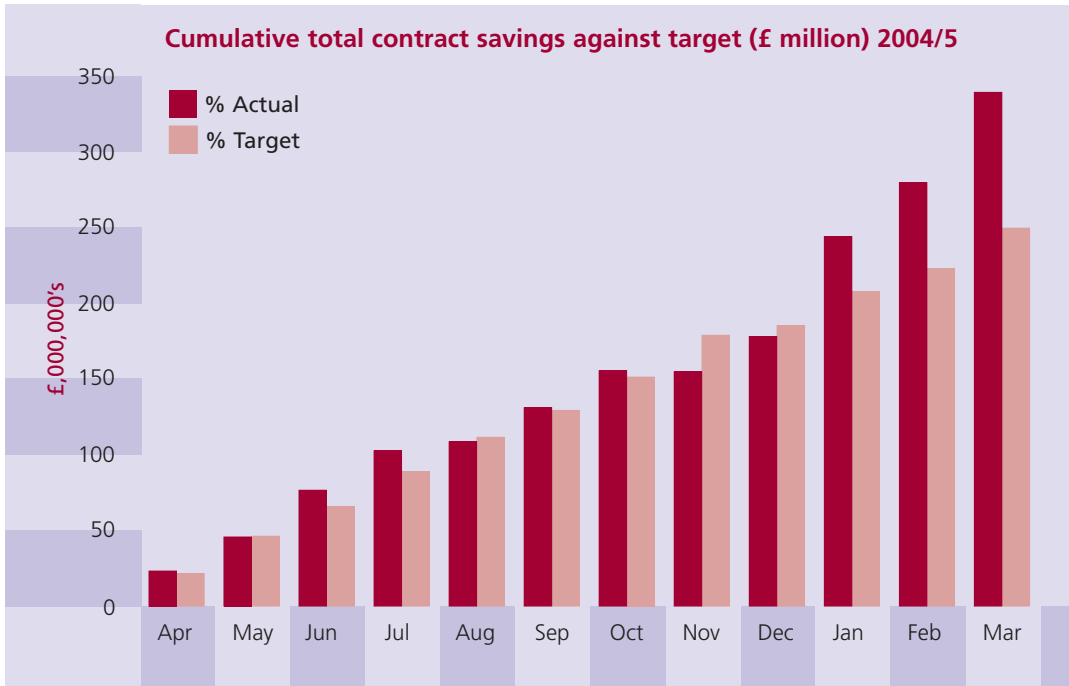
achieved within the year. The remaining balance of 47% represents estimated savings for the year n.b. actual savings are from supplier uptake reports and retrospectively reported whilst estimated are forecasted savings at contract let. It should be noted that from 1 April 2005, the Agency will only be reporting actual savings.

The breakdown of savings was:

- a. **67% (£229million) – cash savings**
- b. **33% (£110million) – cost avoidance**

The graphs on the following page demonstrate the phasing of savings against the target and against forecast. It can be seen that the target was exceeded by £90million and the forecast was exceeded by £10million.





Target 2 – modernising supply

- establishment of supply management confederations to increase from 82% to 100% of NHS trusts
- encourage confederations to move through their maturity levels. 50% of confederations existing at 01/04/04 to meet level 4*

Target	Percentages achieved at March 2004	Comment
Supply management confederations to increase from 82% to 100% of all NHS trusts	96.01%	South East London have still not made the decision to form a confederation. They have however agreed to work with a member of NHS PASA staff to look at driving benefits from national contracts through a collaborative approach. This work has now started.
Encourage confederations to move through their maturity levels – 50% of confederations existing at 01/04/4 to meet level 4*	52%	Target exceeded
* level 4 – fully resourced business case and structure agreed: initial steps being made in achieving benefits through workplan and project stream activities.		

Target 3 – eProcurement

- **eSystems** – four common data elements – supplier name, contract title, contract reference, e-class coding – to be integrated into the Agency’s four major systems (CIMS, NCIS, NHS-sid, NHS-eCat)
- **eTenders** – 100% of Agency’s tenders to be transacted via an eTendering system
- **eAuctions** – 100% of identified Agency contracts to be processed via an eAuction process – following a review of the Agency’s work plan to establish those appropriate
- **NHS-cis** – 100% population of confederation/trust contract information
- **NHS-eCat** – 100% of Agency contracts to be accessible via NHS-eCat portal
- **NHS-sid** – 100% of the Agency’s contracted suppliers to have published pre-qualification information and 100% of the top suppliers to confederations to have published pre-qualification information

Position at end of year:

- **eSystems** – NHS-sid is an externally hosted information system providing potential suppliers to the NHS with a mechanism to make pre-qualification tender data available to the NHS. It is a stand-alone system and it has been decided that it is not appropriate to



integrate this current application with other Agency information systems at this stage as a tender is currently in progress, which may result in a new application.

NHS-cis is also an externally hosted information system providing NHS users with the ability to register and share top level contract information. It is a stand-alone system and it has been decided that it is not appropriate to integrate this application with other Agency information systems. (See separate note below regarding the future of NHS-cis.)

- The important integration is between CIMS and NHS eCat. Specification and development of the key system interfaces between these two systems is complete.
- **eTenders** – a contract was awarded in June 2004 for an eTendering service for the Agency for the remainder of this financial year and the service was fully utilised, where appropriate, by the Agency. During the year the Office of Government Commerce (OGC) awarded a framework contract for eSourcing tools for use across government and the Agency will make use of that agreement, where appropriate, for all future procurement exercises.
- **eAuctions** – a contract was awarded in June 2004 for an eAuction service for the Agency. Seven eAuctions have been held during this year saving an estimated £6.4 million on previous prices. During the year the Office of Government Commerce (OGC) awarded a framework contract for eSourcing tools for use across government and the Agency will make use of that agreement, where appropriate, for future procurement exercises.

- **NHS-cis** – it became apparent that pilot confederations and trusts found it difficult to provide accurate and timely information to the Agency NHS-cis team. The Agency has therefore made some minor system enhancements which will enable the NHS to undertake self population of the system from 1 April 2005 and a number of trusts and confederations have expressed an interest in using the system.

- **NHS-eCat** – The web-based catalogue now contains contract and product data relating to:

- Wave 1 SCEP contracts including Pharmacy
- IT goods and services including consultancy previously held in NHScat-IT, a separate system

The web-based catalogue now contains links to:

- car leasing and OGC catalogues
- third party 'punch-out' sites e.g. RS Components.

Pharmacy – distribution of the majority of contract and product data remains via CD (outside of the NHS eCat portal) this will continue into 2005/6. The Agency will review this arrangement in the next financial year and will produce a business case to replace the CD with a web-based system.

- **NHS-sid** – over 1000 (55%) of the Agency's 1800+ contracted suppliers are fully registered on NHS-sid. At the December ME meeting it was agreed that the Agency would not continue to pursue suppliers who would not be seeking contracts in the future to register on NHS-sid.

- All of the top 100 suppliers to confederations have published pre-qualification information.

Target 4 – raising levels of professionalism

- deliver 2000 places of off job training and continuing professional development for NHS staff with procurement responsibilities
- maintain a minimum of 75% of Agency staff, at buyer level or above, having or working towards an appropriate professional qualification
- deliver the following management tools to help NHS procurement managers raise levels of professionalism within their teams – tailored trust competency framework/role profiles/training needs analysis toolkit/training and development strategy guidance.

Position at end of year:

2,075 training places delivered to NHS staff April 2004 – March 2005 with the result that we exceeded this year's targets. Approximately 18% of all operational supply training places delivered so far have been taken by NHS estates and pharmacy staff.

Legal update workshops planned for NHS procurement managers on the new EU Directives were delivered in November/December.

79 trust staff in receipt of funding for CIPS (foundation stage) studies.

69 Agency staff in receipt of funding to commence/continue their studies; thus maintaining 80% of staff at buyer level (or above) having or working towards an appropriate professional qualification.

Briefing sessions were delivered into April 2004 introducing the new NHS purchasing

and supply IT based competence framework and role profiling process to NHS supplies managers. This is available to all via BORG.

National Agenda for Change (AfC) role profiles have now been approved by the AfC shadow board and are about to be issued for consultation before being formally adopted. Training needs assessment toolkit – this project has been put on hold as part of the rigorous cost saving exercise.

Target 5 – internal efficiencies

Savings

- ratio of purchasing to support staff/savings per employee (total)/savings per employee (purchasing staff)/institute a system for measuring the above, with the aim of continuous improvement.

Position at end of year:

Savings	2003/4 (Note 1)	2004/5 (Note 2)
Ratio of purchasing to support staff	67:33	68:32
Savings per employee (total)	£867,953	£1,028,728
Savings per employee (Purchasing staff)	£1,301,929	£1,516,867

Note:

- 1) Savings 2003/4 divided by headcount as at 31 March 2004, adjusted for NCPP Wave 1.
- 2) Savings 2004/5 divided by headcount as at 31 March 2005.

Purchasing Excellence Model (PEM)

- achieve 10% improvement in the total weighted score over the 2003/4 result

Position at end of year:

- the results of the PEM assessment carried out in November 2004, based on a survey involving 42 NHS PASA staff



chosen on a random basis, have resulted in an **increase of 4%** over last year's weighted score

- significant improvements have been achieved in relation to 'customer results' and 'society results' reflecting the increased focus on NHS stakeholders and sustainable development initiatives respectively
- a deterioration has been experienced in the 'people process' element of the PEM. This has been prompted by the uncertainty associated with the restructuring of the Agency and the delay in implementing the DH staff opinion survey
- the Agency is 14% higher than the average public sector score according to the CPMS benchmark database
- the external assessor commented that he believed the result was a good achievement considering the changes taking place.

Sickness

- reduce uncertified days absence by 5% to an average 5.9 days per person.

Position at end of year:

- the absence rate for the last year was **5.6 days** per person
- an internal audit of the NHS PASA sickness absence management system was completed in August and did not reveal any significant non-conformance with procedure or best practice
- the average 5.9 days per person target compares with the latest CBI benchmark figures for 2003 of 10.7 days for the public sector and 7.8 days for the private sector.

Target exceeded

Sustainable development

- meet all targets set under the *Framework for Sustainable Development on the Government Estate*

Position at end of year:

Total no. targets achieved	14
Total no. targets in progress	16
Total no. targets unlikely to achieve	2
Total no. targets not applicable	6
Total no. targets	38

In the financial year 2004/5, 95% of the targets set under the *Framework for Sustainable Development on the Government Estate* have either been met, are in progress to be met by the required date (up to 2011), or are not applicable to the Agency's estate. The two targets not being met relate to individual choices regarding commuting and driving, which are not under the direct control of the Agency.

Target 6 – supplier management strategy

- devise and publish a strategy on behalf of the Agency and NHS, to include: segmentation of suppliers/risk assessment of key markets/contract management/ monitoring of performance/improved expenditure data/ eProcurement/ encouraging small businesses/innovation/ reducing bureaucracy

Position at end of year:

Strategy approved by ME on 15 February 2005. Document published on Agency website.

Key achievements in 2004/5 and a look forward to 2005/6

National objectives

The Agency is required to deliver national objectives which impact on procurement. Some specific examples are listed here:

- **sustainable development** – we are committed to achieving targets set under the *Framework for Sustainable Development on the Government Estate*, and also to providing a lead to the NHS on sustainable procurement.
- **health and health inequalities** – the Government white paper, *Choosing Health: Making healthy choices easier* was published in 2004 and set an agenda for improving people's chances for better health and reducing inequalities that lead to ill health. NHS employment and the procurement of food, goods and services are identified as making significant contributions to the health and sustainability of the communities served. We are supporting the delivery of the action plan by ensuring contracting activities support Department of Health programmes for better health and reducing health inequalities, as outlined in the Choosing Health White Paper
- we engage with **small businesses and social enterprises**
- **reducing bureaucracy** – the need to simplify processes has been a consistent theme of numerous reports published in recent years. The Agency is working hard to meet this agenda:
 - one significant success has been the introduction of NHS-sid, a central database of supplier information required in support of tender applications. During 2004/5 we have

seen a dramatic rise in the number of suppliers registering on the system – as at March 2005 this stood at 6223

- other initiatives are being pursued towards minimising the complexity of processes – examples include introduction of a centrally maintained quality control database of pharmaceutical products, a pre-purchase questionnaire for equipment has been updated to include decontamination issues and a comprehensive range of model terms and conditions of contracts developed for use by the NHS.

Freedom of information

The Freedom of Information Act in relation to public service departments came into force on 1 January 2005. The Agency has provided guidance to our staff and suppliers on the Agency's obligations under the Act. In addition, we have drafted new confidentiality clauses for our terms and conditions of contract that reflect our obligations under the Act.

EU directives

The new Public Sector Directive (2004/18/EC), which brings together the three existing directives on public sector procurement (supplies, works and services), has now been adopted by the European Parliament. The purpose of the new directive is to simplify and modernise public procurement, and is intended to remove any inconsistencies between the existing directives. It also introduces some significant additional features. The directive recognises the status of central purchasing bodies such as the Agency, and also formalises the use of framework agreements and electronic auctions.



Increasing capacity

During 2004/05 the number of treatment centres and initiatives involving the private sector have both increased. The trend is expected to continue in the planning year. This has an impact in terms of procurement as products are required for use on NHS patients. The Agency made a policy decision in 2004 that our contracts should be made available to non NHS providers but strictly on condition that the products in question are only to be used on NHS patients. The benefit of such providers using our contracts is that consistency, compatibility and compliance with safety regulations are ensured. The contracts should also offer better value for the NHS.

Patient safety

NHS PASA has a diverse programme of work that impacts on both patient and staff safety within the NHS. This includes working in partnership with a wide variety of stakeholders and colleagues from other agencies – for example the National Patient Safety Agency and DH Patient Safety team.

A significant initiative currently being undertaken by the Department of Health is towards the reduction of MRSA. The Agency is contributing to projects such the Clean Hospitals programme and *Cleanyourhands*



campaign. Further projects include sourcing safer medical devices and providing advice on the effective procurement of infusion pumps.

Pharmaceutical supply chain project

A review of the pharmaceutical supply chain was completed during 2004/5, the first to be carried out on a national basis since 1986. Key deliverables were: good practice guidelines for managing the pharmaceutical

supply chain; a standard set of key performance indicators; guidance on procuring and installing robotic dispensing. A full set of recommendations was presented to the National Pharmaceutical Supplies group in September 2004 and a pilot programme started in January 2005 to test the outputs in a small number of trusts. The pilots will conclude in 2005/6, with the wider learning being rolled out to other trusts during the latter part of the year.

Innovation

Publication of the Department of Trade and Industry's report *Competing in the Global Economy* in December 2003 challenged government bodies to develop policies to foster innovation and, by so doing, stimulate the competitiveness of UK industry. This was reinforced by the Office of Government Commerce's report *Capturing Innovation*. Innovation in procurement provides potential benefits for all stakeholders – by embracing innovative products and processes NHS trusts could meet targets quicker, reduce costs and improve quality of service to patients – and patients experience better outcomes by improved access to new technologies. The focus for the Agency's involvement throughout 2004/5 and continuing for 2005/6 include:

Healthcare Industries Task Force (HITF)

HITF was a major initiative between government and the medical devices industry, chaired jointly by Lord Warner, Parliamentary Under Secretary of State (Lords) for the Department of Health, and Sir Chris O'Donnell, Chief Executive of Smith and Nephew plc. It was set up to identify opportunities where closer co-operation between government and healthcare companies would bring about benefits for

patients and service users, the NHS and social care, whilst also helping to improve the industry's performance. Its report *Better health through partnership: a programme for action* was published in November 2004.

The Agency has made a significant contribution to HITF's work through our chief executive being a task force member and co-chair of one of its four working groups – the Market Access Group. This group was tasked with investigating how to increase and speed up the NHS adoption of useful innovations.

Device Evaluation Service

A HITF output relevant to the Agency comprises a range of measures associated with the evaluation of medical devices. In April 2003 the Medicines Control Agency (MCA) and Medical Devices Agency (MDA) merged to form the Medical Healthcare Products Regulatory Agency (MHRA). The Device Evaluation Service (DES) was listed under the responsibilities of the MDA in the trading fund. The trading fund must be amended by statutory instrument to release the DES and allow the transfer to NHS PASA. The statutory instrument requires a parliamentary decision. Subject to this decision being made, the Agency will assume responsibility for the DES with effect from October.

Other challenges

In 2005/6 we have many additional challenges facing us over and above the work already outlined around the Supply Chain Excellence Programme. Some of these are:

- a significant issue for the Agency in terms of management and resource could be the market testing exercise currently underway with NHS Logistics depending on the chosen route for this project
- the Agency is in the forefront of the ALB review implementation process. We will contribute to over £250 million in savings on NHS expenditure by March 2008
- discussions are taking place with regard to the possibility of transferring contracting work from the NHS Information Authority in support of the National Programme for IT
- in pharmaceuticals work is underway to implement and monitor a contract with effect from 1 October 2005 to facilitate the introduction of the new Department of Health policy on the provision of a home oxygen therapy service to patients with respiratory disease
- the orthopaedics team are developing a contract in conjunction with the home countries for internal and external trauma
- the surgical instruments team are producing a national framework to help achieve compliance with new decontamination regulations and reduce the risk of cross contamination
- our decontamination team will be developing contracts for private sector partners to build and manage modern sterile service departments, each serving several NHS trusts
- the radiology team is developing a procurement strategy for digital equipment, linking with the National Programme for IT
- the energy team is working to provide NHS trusts with daily online consumption data and pricing information for all commodities
- HITF produced nine key outputs from a wider range of recommendations and two of these have direct implications for the Agency in 2005/6



- in 2005/6 we will scope the remit and activity of DES so that it is best placed to meet the immediate and future requirements placed upon it by HITF
- in 2004 the Health Protection Agency established the Rapid Review Panel (RRP) on behalf of the Department of Health to consider products which would be effective in reducing the level of hospital acquired infections. The RRP's role has direct implication for the Agency and we will participate in the RRP's activities to ensure that procurement issues are factored into its deliberations
- we will continue to make a significant contribution to maintaining and developing the competence and professionalism of both our own staff and those involved in procurement in the English NHS.

- year on year we have increased our contract value and over-achieved our savings targets

Savings		
	Target	Achieved
2000/1	£111m	£171m
2001/2	£130m	£271m
2002/3	£150m	£318m
2003/4	£213m	£410m
2004/5	£250m	£340m

Contract value	
2000/1	£2.3 billion
2001/2	£2.6 billion
2002/3	£3.5 billion
2003/4	£4.3 billion
2004/5	£4.7 billion (includes £1.1 billion of wave 1 contracts)

Stakeholder engagement



The Agency has a duty to consult and work with our major stakeholders, working at a variety of levels and with people who have a wide range of interests. Our main stakeholders include the Department of Health, Office of Government Commerce, NHS supply staff, customers of procurement services throughout the NHS, suppliers and potential suppliers. Increasingly, patients and their representatives are involved in our consultation processes in order to fulfil the objective of providing greater choice.

Department of Health (DH)

The Agency is in regular contact with both policy leads and the Commercial Directorate to ensure that our work is consistent with the Department's objectives. A specific aspect of the Agency's work is to respond to Ministerial briefings and provide answers to parliamentary questions. It is also necessary to ensure that policy leads are aware of any major procurement issues, for example shortages of critical products, which might impact on patient care.

The Agency continues to be integrally involved with the DH in planning for responding to emergencies of any kind impacting on health services. We are represented on various national working groups and committees in furtherance of this work. Our contribution extends into discussions and meetings with various other government departments and agencies on purchasing and supply issues of common interest, to minimise duplication and maximise cost savings wherever possible.

During 2005/6 the Agency will continue its commitment to work closely with the DH, other government departments and agencies and NHS Logistics on the purchasing and

supply aspects of emergency planning. This includes providing policy and strategic advice on markets, undertaking research, managing supply chains and negotiating contracts for products and services (including storage and emergency deployment) associated with this workstream. This is generally carried out on a UK-wide basis.

The NHS

Consultation with the NHS has taken place during 2004/5 at a new level following the decision that each of the Agency's directors take responsibility for a region of the country. This has resulted in greater involvement and improved liaison with confederations, board leads and strategic health authorities. Communication events are held regularly to ensure that NHS staff are aware of current plans. This is especially important with regard to providing progress reports on the Supply Chain Excellence Programme.

Office of Government Commerce

The Agency is in regular communication with OGC and other government departments to ensure that replication of effort is reduced to a minimum. In 2004 the Agency was a partner in the production of Procurement Solutions for the Public Sector, a major conference held at London Docklands in June. This was a prestigious conference and exhibition for the public sector which involved both consumers and suppliers to the NHS. Several cross government contracts exist, of which the NHS can take advantage and NHS PASA is also in regular dialogue with local authorities and the Ministry of Defence to seek ways of working together for joint benefit.

Home countries

The Agency meets regularly with counterparts at both policy and operational level to share contract workplans and market intelligence, plus agree standard processes where appropriate. Some contracts, for example for food items, are awarded jointly on behalf of two or more countries, thereby bringing greater value and freeing resources that may be used for other purposes.

Industry

An informed supplier base is crucial for effective procurement. The Agency seeks to ensure that industry representatives and individual suppliers are communicated with through regular meetings and seminars, circulars and the provision of information via our website.

Future stakeholder engagement plans

In 2005/6 we will be instigating a Stakeholder Forum where key NHS and DH stakeholder interests will be represented. This will be chaired by the Agency's chief executive and it is intended to hold meetings on a quarterly basis.

The purpose of the forum is to enable face to face communications with key procurement stakeholders. It is intended to use the meetings as an opportunity to consult with the NHS on:

- new procurement initiatives
- procurement work plans
- compliance with national contracts.

The Agency will be using this group to understand the strategic issues facing collaborative procurement hubs and supply

management confederations and they in turn will gain a better understanding of the issues facing the Agency.

We will use the forum to ensure that together we continue to work to share best practice and expertise across the whole of the English NHS purchasing and supply function.

Foreword to the accounts for the year ended 31 March 2005

Background information

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

The Agency is managed by a team of officers led by Chief Executive, Duncan Eaton, the Agency's Accounting Officer. All are Civil Servants, employed on full terms and conditions. Details are given in note 2(c) to the Accounts. The remuneration of the team is determined by a standard process which is detailed in the Department of Health's Senior Pay Strategy 2004 which is published on the Department's intranet site.

Management Executive

During 2004/5 the senior management team of the NHS Purchasing and Supply Agency comprised:

Duncan Eaton	Chief Executive
Neil Argyle	Director
Marcus Brindle	Director
Clem Brohier	Head of Finance
John Cooper	Director
Alyson Gerner	Director
Eric Jackson	Director
Andrew Rudd	Director
Chris Theaker	Director
Chris Uden	Director
John Warrington	Director
Geoff Holmes	Head of NHS Liaison (retired 06.09.04)

Ministerial Advisory Board (MAB)

Ken Anderson	Commercial Director, Department of Health (Chair)
Catherine McLoughlin	Chair, National Network for Arts and Health and Chair, Age Concern, Bromley
Joanna Cubhon	Chief Executive, East Lancashire Hospital NHS Trust
Margaret Coomber	Director of Nursing and HR, Norfolk and Norwich Healthcare NHS Trust
Robert Naylor	Chief Executive, University College London Hospitals NHS Trust
Angus Clarke	retired, formerly Director of Sainsbury's
Ram Gokal	Consultant Renal Physician, Manchester Royal Infirmary
Bill Darling	Chair, NHS Counter Fraud and Security Management Service

Audit Committee

The Agency's Audit Committee advises the Chief Executive and Chair of MAB on issues relating to corporate governance, internal control and matters relating to audit of the Agency. The Committee was chaired by a member of the MAB. Meetings are also attended by the Agency's Head of Finance.

The Chief Executive is accountable to the Secretary of State. Both the Chief Executive and the Agency operate under a framework document that was published in January 2001. The Chief Executive is appointed by the Chief Executive of the DH and NHS for an (extendable) period of 3 years under normal Civil Service Management Code terms. The NHS Purchasing and Supply Agency works to a three year corporate plan and to annual business plans. These are submitted to the Ministerial Advisory Board and approved by the Parliamentary Under Secretary of State, the Minister responsible for the Agency.

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

Regulatory Framework

The Agency has prepared the financial statements for the year ended 31 March 2005 in accordance with the Resource Accounting Manual and Regulatory Framework, as directed by HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

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

Operating results for the period

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

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

The Agency's budget for 2004/5 was £22.5m for revenue expenditure and £0.3m for capital expenditure.

Revenue expenditure incurred in 2004/5 was £21.2m and capital expenditure was £0.3m.

The resource budget for 2005/6 has been notified to be £22.2 million.

A brief review of principal activities

The Agency exists to improve the performance of the NHS in its procurement activities, with the objective of delivering better value for money. The Agency's activities and achievements during 2004/5 are described more fully in the annual report. Highlights have been:

- savings of £339 million achieved against a contract value of £3.6 billion. This is equivalent to a 9.31% overall saving against the target of 6.85% of the value of Agency contracts

- promoting and co-ordinating the establishment of supplier management confederations (groups of NHS Trusts co-operating to obtain better value)
- exercising influence over £5.7 billion of spend of which £3.6 billion was directly contracted by the Agency.

During the year the Commercial Directorate of the Department of Health commissioned a review of the Agency which culminated in the restructuring of the organisation. The changes more appropriately configured the Agency to undertake a stronger and more focused national role in all areas critical to the delivery of NHS purchasing and supply. The restructuring exercise was driven by several critical drivers for change:

- the need to introduce new functions and processes to ensure delivery of savings made possible through the Department of Health's Supply Chain Excellence Programme's (SCEP) National Contracts Procurement (NCP) framework agreements
- the need to contribute to the Department of Health's Arm's Length Bodies Review Programme (ALB review) through both operational improvements and restructuring to better assess and take on board future ALB components
- the need to introduce new functions and roles to support the successful delivery of SCEP's Collaborative Procurement Hubs (CPH) and the continued maturity of Confederations
- the need to introduce new functions and roles to help drive the Department of Health's Procurement Innovation Agenda across the NHS.

To achieve these drivers, the Agency has been greatly transformed including:

- restructured category teams with greater focus on subject matter expertise, supplier and end customer management to ensure innovation, contract uptake, compliance, realised savings and support to CPHs
- introduction of a new central Procurement Enablement Directorate to maximise deep expertise and flexible staffing and ensure ongoing benefit tracking and support to CPHs
- expansion of policy and innovation roles to help drive the Department of Health's agenda
- introduction of a new NHS Development Directorate to ensure the successful delivery of CPHs and continued development of Confederations.

Research and development

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

Employee consultation

The average number of staff employed during the year (measured as a whole time equivalent) was 332.

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

Equal Opportunity

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

Recruitment Statistics – April 2004 to March 2005

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

17 new staff were appointed through external recruitment exercises, all of which were conducted on the basis of fair and open competition and selection on merit. Of the appointments made, 65% were women and 6% from ethnic minorities (for applicants, 48% and 17% respectively).

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

Payment of suppliers

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

Results for the year were:

	2004/5	2003/4
Percentage of suppliers' invoices paid within 30 days	94%	92%
Average payment time, in days	12	13
Value of invoices paid, in £ millions	6.8	9.4

During the year late payment interest charges totalling £34 were paid under the Late Payment of Commercial Debts (Interest) Act 1998.

Pension liabilities

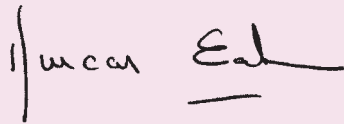
The Agency's pension liabilities are described in the notes to the accounts, reference numbers 1h and 2c.

Political and charitable gifts

No political or charitable gifts were made during the year.

Register of Interests

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

A handwritten signature in black ink, appearing to read 'Duncan Eaton', with a horizontal line underneath the name.

Duncan Eaton
Chief Executive
7 July 2005

Statement of Agency's and Chief Executive's responsibilities

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

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

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

In preparing the financial statements, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed and disclose and explain any material departures in the accounts; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so.

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

Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control

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

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

The system of internal control has been in place in the Agency for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Accountability arrangements in existence during the year include:

- the Ministerial Advisory Board (MAB), which reviews the Agency's performance in relation to the objectives of the NHS
- the Commercial Directorate, a body formed within the Department of Health, which acts as 'senior departmental sponsor' providing independent review of the Agency's performance
- continuous financial information provision to the Department of Health.

The risk and control framework

One member of the Management Executive (ME) is given overall responsibility for risk management and this responsibility is rotated on a two year basis. The responsible Director is chairman of the Risk Management Group (RMG), comprising staff representing all aspects of the Agency, which provided a policy and terms of reference by which risk will be managed and reported. The RMG cascades risk management culture to all staff.

In 2004/05 the Agency employed an independent risk management consultancy to assist management in identifying corporate and functional risks and in embedding risk management into the Agency. The Agency was fully compliant with Treasury requirements throughout the financial year.

Corporate risks are aligned to the Agency's aims and objectives and the issues affecting their achievement. Functional risks relate to the operations of the Agency.

These risks are monitored and controlled using registers, which are reviewed and updated quarterly and reported to ME quarterly.

Evaluation of risks is carried out using a standard methodology, whereby a range of financial or impact values are defined and applied to each identified risk.

The main activity of the Agency is purchasing. An in-house system to record progress on activities is operational and includes a risk module, which highlights any areas which require

escalation and approval where the risk is considered to be high. For non-purchasing activities procedures and policies exist which incorporate risk management.

In order to be better able to undertake a stronger and more focused national role in all areas critical to the delivery of NHS purchasing and supplies, during 2004-05, the Agency undertook a significant review of its organisation, with a view to introducing a restructured Agency from 1 April 2005.

A specific project group was formed and it adopted a project methodology which, amongst other things, identified, properly considered and managed risks related to the changing structure. The agreed risk management processes continued to apply through the restructuring process.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the ME, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency has established processes which include the following:

- ME which meets monthly to consider plans for the strategic direction of the Agency
- periodic internal control reports from the Audit Committee, which comprises independent officers
- risk Committee, which reports into the ME monthly
- monthly production of key performance indicators, e.g. savings generated
- comprehensive budgeting and forecasting systems
- review, by ME, of monthly and annual financial reports
- IT security accreditation (BS7799)
- European Foundation for Quality Management.

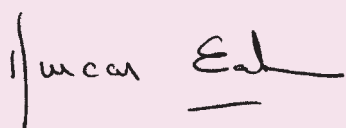
The Agency benefits from an internal audit service supplied by an external contractor, which operates to agreed internal audit standards. The service reports on the adequacy and effectiveness of the Agency's system of internal control.

The Audit Committee agrees the annual audit plan and monitors the implementation of recommendations.

The internal auditors have examined the systems of internal control and are of the opinion that these are effective.

Significant internal control problems

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



Duncan Eaton
Chief Executive
7 July 2005

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

I certify that I have audited the financial statements on pages 26 to 42 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 29 to 31.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on pages 21 to 23, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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 certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 22 and 23 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused

by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS Purchasing and Supply Agency at 31 March 2005 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
- I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
12 July 2005

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

The maintenance and integrity of the NHS Purchasing and Supply Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statement since they were initially presented on the website.

Operating Cost Statement for the Year Ended 31 March 2005

	Notes	2004/5 £000's	2003/4 £000's
Administration costs			
Staff costs	2a	15,676	13,738
Other administration costs	3	6,901	7,103
Gross administration costs		<u>22,577</u>	<u>20,841</u>
Operating income	4	(1,405)	(574)
Net operating cost		<u>21,172</u>	<u>20,267</u>
Net resource outturn	5	<u>21,172</u>	<u>20,268</u>

All of the above expenditure relates to continuing operations.

Statement of Recognised Gains and Losses for the period ended 31 March 2005

	Notes	2004/5 £000's	2003/4 £000's
Net gain/(loss) on revaluation of tangible fixed assets	14	<u>289</u>	<u>85</u>

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

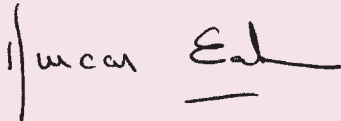
The notes on pages 29 to 42 form part of these financial statements.

Balance Sheet

as at 31 March 2005

	Notes	As at 31 March 2005		As at 31 March 2004	
		£000's	£000's	£000's	£000's
Fixed Assets	8		2,401		1,866
Current assets					
Debtors: amounts falling due within one year	10	1,008		544	
Cash at bank and in hand	11	39		40	
		1,047		584	
Creditors: Amounts falling due within one year	12	(1,861)		(1,367)	
Net current (liabilities)			(814)		(783)
Total assets less current liabilities			1,587		1,083
Provision for liabilities and charges	13		(1,624)		(457)
			(37)		626
Taxpayers equity					
Revaluation reserve	14		475		186
General Fund	15b		(512)		440
			(37)		626

The notes on pages 29 to 42 form part of these financial statements.



Duncan Eaton
Accounting Officer
7 July 2005

Cash Flow Statement for the Year Ended 31 March 2005

	Notes	2004/5 £000's	2003/4 £000's
Reconciliation of operating costs to operating cash flows			
Net operating cost		(21,172)	(20,267)
Adjustment for non-cash transactions:			
Depreciation	3	350	315
Impairment of fixed assets	8	35	9
Loss on disposal of fixed assets	8	-	4
Other notional costs	3	97	208
Interest on capital employed	3	9	30
Auditor's remuneration and expenses	3	52	50
Provisions	13	1,167	445
Adjustment for movements in working capital other than cash	9	13,904	13,896
Net cash (outflow) from operating activities		(5,558)	(5,310)
Capital expenditure and financial investment:			
Payments to acquire fixed assets	8	(293)	(189)
Payment of amounts due to the Consolidated Fund	4	-	(1)
Financing from the Department of Health	11	5,850	5,500
(Decrease)/increase in cash in the period	11	(1)	-
Analysis of financing			
Financing from Department of Health	11	5,850	5,500
Change in cash balance		(1)	-
Net cash requirements		5,849	5,500

The notes on pages 29 to 42 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2005

1. Accounting policies

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

a) Accounting convention

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

b) Government funding

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

c) VAT

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

The Agency is registered for VAT as part of the Department of Health, which is responsible for recovering VAT from HM Customs and Excise on behalf of the Agency. The reclaimable VAT is offset against funding received from the Department during the year. Any recoverable VAT not claimed at the year end is included in the Agency's account as a debtor to the Department of Health.

d) Fixed assets

i) Capitalisation

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

ii) Valuation

Land and buildings were revalued by the District Valuer (of the Inland Revenue) as at 1 April 2000. This exercise was undertaken as part of the five-yearly revaluation of the NHS estate prior to the assets being transferred to the Agency from the NHS Supplies Authority. In future, land and buildings will be subject to five yearly valuations by a qualified valuer appointed by the Department of Health.

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

iii) Depreciation

Land is not depreciated.

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

Buildings	50 to 60 years
Fixture and fittings	10 years
Computer hardware	3 to 5 years
Motor vehicles	4 years
Other equipment	5 years

Depreciation is also provided on computer software, classified as intangible fixed assets. The estimated useful life is 5 years.

e) Operating income and expenditure

The operating cost statement records administration costs, operating income and the net resource outturn. The Agency has no programme costs. Operating income is income which relates directly to the operating activities of the Agency. It includes income appropriated in aid and income due to the Consolidated Fund.

f) Capital charge

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5 per cent in real terms on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General.

g) Operating leases

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

h) Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded multi employer defined benefit scheme, therefore the Agency is unable to identify its share of the underlying assets and liabilities. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. A full actuarial valuation was carried out at 31 March 2000 and details can be found in the separate scheme statement of the PCSPS. Total payments to the scheme in the year were £1.675 million.

There were no employees taking part in the 'money purchase' stakeholder arrangement (partnership pension account) in 2004/05.

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

The rates for 2004/05 are:

Salary band			%
£0	-	£17,500	12
£17,501	-	£36,000	13.5
£36,001	-	£62,000	16.5
£62,001 +			18.5

i) Losses and special payments

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

j) Provisions for liabilities and charges

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

2.

a) Staff costs

	2004/5 £000's	2003/4 £000's
Wages and salaries	12,398	10,950
Social security costs	976	904
Pension costs	1,675	1,557
Sub total	15,049	13,411
Inward secondments, agency and contract staff	627	327
Total	15,676	13,738
Less recoveries from outward secondments	(1,133)	(566)
Total net costs	14,543	13,172

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

b) Staff numbers

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

	2004/5 wte	2003/4 wte
Permanent employees	319	303
Inward secondments	2	1
Agency and contract staff	11	14
Operations	332	318

Of the 332 average number of employees in 2004/05, 105 were support staff.

The Procurement and Policy Advisory Unit (PPAU) transferred to the Agency in October 2004. This unit provides independent procurement advice to the Department of Health. PPAU comprised two senior procurement managers and five procurement managers.

c) Management Executive salary and pension entitlements

Name	Salary including performance related pay	Benefits in Kind	Real increase in pension and related lump sum at age 60
	£000's	£100	£000's
Mr Duncan Eaton Chief Executive	105-110	10	0-2.5 plus 0-2.5 lump sum
Mr Christopher Uden Director	105-110	0	0-2.5 plus 2.5-5 lump sum
Mr Eric Jackson Director	110-115	0	5-7.5 plus 15-17.5 lump sum
Mr John Cooper Director	75-80	0	0-2.5 plus 0-2.5 lump sum
Mr Andrew Rudd Director	60-65	37	0-2.5 plus 2.5-5 lump sum
Mr Marcus Brindle Director	70-75	0	0-2.5 plus 0-2.5 lump sum
Mr Neil Argyle Director	70-75	18	0-2.5 plus 2.5-5 lump sum
Mr Geoffrey Holmes Head of NHS Liaison	30-35	0	0-2.5 plus 0-2.5 lump sum
Mr Clem Brohier Head of Finance	60-65	0	0-2.5 plus 0-2.5 lump sum
Ms Alyson Gerner Director	55-60	15	0-2.5 plus 5-7.5 lump sum
Mr John Warrington Director	60-65	0	0-2.5 plus 5-7.5 lump sum
Mr Chris Theaker Director	60-65	2	0-2.5 plus 5-7.5 lump sum

Mr Geoffrey Holmes retired on 6th September 2004

Total accrued pension at age 60 at 31/3/05 and related lump sum	CETV at 31/3/04	CETV at 31/3/05	Real increase in CETV after adjustments for inflation and changes in market investment factors
£000's	£000's	£000's	£000's
50-55 plus 150-155 lump sum	886	947	13
45-50 plus 140-145 lump sum	808	867	21
50-55 plus 155-160 lump sum	765	897	96
30-35 plus 90-95 lump sum	467	506	9
15-20 plus 45-50 lump sum	195	221	13
30-35 plus 90-95 lump sum	433	468	8
25-30 plus 75-80 lump sum	424	464	16
30-35 plus 95-100 lump sum	577	593	-1
0-2.5 plus 0-2.5 lump sum	2	12	8
10-15 plus 40-45 lump sum	137	169	22
15-20 plus 45-50 lump sum	170	209	26
15-20 plus 50-55 lump sum	189	226	25

Salary

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

Benefits in kind

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

Pension

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

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

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

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

Columns 6 & 7 of table 2c) show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

3. Other administration costs

	2004/5 £000's	2003/4 £000's
Operating lease payments:		
Land and buildings	331	329
Other leases	154	245
Non-cash items:		
Depreciation	350	315
Impairment of fixed assets	35	9
Interest on capital employed	9	30
Auditor's remuneration and expenses	52	50
Other notional costs	97	208
Other expenditure:		
Other staff related including training	1,649	1,984
Estate recurrent costs	1,158	1,066
Strategic procurement projects	960	1,052
Professional fees	1,222	674
Other	884	1,141
	6,901	7,103

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

4. Operating Income

	2004/5 £000's	2003/4 £000's
Appropriated in aid:		
Cost recovery from external organisations	1,401	569
Cost recovery from employees	4	4
Payable to Consolidated Fund	-	1
Income included in Operating Cost Statement	<u>1,405</u>	<u>574</u>

5. Reconciliation of net operating cost to net resource outturn

	2004/5 £000's	2003/4 £000's
Net operating cost per operating cost statement	21,172	20,267
Operating income not classified as A in A	-	1
Net resource outturn	<u>21,172</u>	<u>20,268</u>

6. Interest on capital employed

	2004/5 £000's	2003/4 £000's
Interest on capital employed	<u>9</u>	<u>30</u>

7. Supplier discounts

The Agency invoices and collects retrospective discounts from certain contracted suppliers as an agent to the Department of Health. In the year ended 31 March 2005 these collections totalled £1,418 excluding VAT (2003-2004: £1,830), all of which were passed to the Department of Health and are therefore not reflected in these accounts.

8. Fixed assets

	Land £000's	Buildings £000's	Equipment and Computers £000's	Motor Vehicles £000's	Intangibles £000's	Total £000's
Costs or valuation:						
At 1 April 2004	298	834	1,367	-	308	2,807
Additions	-	-	197	-	96	293
Disposals	-	-	-	-	-	-
Transfers	-	-	-	502	-	502
Surplus/(deficit) on indexation	27	166	(58)	16	(19)	132
At 31 March 2005	325	1,000	1,506	518	385	3,734
Depreciation:						
At 1 April 2004	-	59	826	-	56	941
Provided during the year	-	15	176	100	59	350
Disposals	-	-	-	-	-	-
Transfers	-	-	-	164	-	164
(Surplus)/deficit on indexation	-	(74)	(46)	2	(4)	(122)
At 31 March 2005	-	-	956	266	111	1,333
NBV At 31 March 2005	325	1,000	550	252	274	2,401
NBV At 1 April 2004	298	775	541	-	252	1,866

Land and buildings are all freehold. All assets are owned and in current use as at 31 March 2005.

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

9. Movements in working capital other than cash

	2004/5 £000's	2003/4 £000's
Decrease/(increase) in debtors	(464)	191
(Decrease)/Increase in creditors	494	(120)
Non-cash financing from Department of Health	13,874	13,825
Net cash inflow	13,904	13,896

10. Debtors: amounts falling due within one year

	31 March 2005 £000's	31 March 2004 £000's
Trade debtors	445	222
Department of Health debtors	142	1
Prepayments and accrued income	421	321
	1,008	544

11. Cash at bank and in hand

	2004/5 £000's	2003/4 £000's
Balance at 1 April	40	40
Net cash inflow:		
From Department of Health	5,850	5,500
Payable to the Consolidated Fund	-	1
Operating payments	(5,851)	(5,501)
Balance at 31 March	39	40

12. Creditors: amounts falling due within one year

	31 March 2005 £000's	31 March 2004 £000's
Trade creditors	692	482
Accruals	1,169	885
	1,861	1,367

13. Provisions

	Reorganisation £000's	Early Retirements £000's	Total £000's
At 1 April 2004	-	457	457
Provided in the year	1,487	-	1,487
Released in the year	-	(320)	(320)
At 31 March 2005	1,487	137	1,624
Expected timing of cash flows:	1,024	104	1,128
Less than one year	333	33	366
One to five years	130	-	130
Over five years	1,487	137	1,624

Early Retirements and Redundancy

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

14. Revaluation reserve

	2004/5 £000's	2003/4 £000's
Balance at 1 April	186	101
Indexation/Revaluation	289	85
Balance carried forward at 31 March	475	186

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

	2004/5 £000's	2003/4 £000's
Net operating cost for the year	(21,172)	(20,267)
Non-A-in-A income paid to the Consolidated Fund	-	(1)
	<hr/>	<hr/>
	(21,172)	(20,268)
Net funding from the Department of Health:	20,062	19,325
Notional charges		
Interest on capital employed	9	30
Auditor's remuneration	52	50
Other notional costs	97	208
	<hr/>	<hr/>
Net (decrease)/increase in General Fund	(952)	(655)

b) Movements in the General Fund

	2004/5 £000's	2003/4 £000's
General Fund at 1 April	440	1,095
Net (decrease)/increase in year	(952)	(655)
	<hr/>	<hr/>
General Fund at 31 March	(512)	440

16. Financial commitments

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

	2004/5 £000's	2003/4 £000's
Land and Buildings		
Leases which expire after five years	314	314
Leases which expire within five years	18	18
Other Leases		
Leases which expire within one year	6	27
Leases which expire within two to five years	5	144

17. Related party transactions

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

The Agency has had numerous transactions with the NHS Logistics Authority (a special health authority), which total £210,754 in the year. In addition to these transactions a notional charge of £57,000 has been made to the operating cost statement in respect of accommodation received free of charge by the Agency. The notional charge is based on an estimate of market rent. Approximately 40 Agency staff are located on a site belonging to NHS Logistics and provide purchasing services to NHS Logistics for which the Agency makes no charge.

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

18. Losses and special payments

During 2004/05, there were 22 cases of losses and special payments totalling £51,655 approved by the Chief Executive in accordance with the Agency's framework document.

19. Capital Commitments

There were no capital commitments at 31 March 2005.

20. Contingent Liabilities

The re-design and re-structure of the Agency was partially complete as at 31 March 2005. The project was broken down into five levels with three phases within each level. The Agency was part way through level 2 at the year end. The project was due to be completed by August 2005. The nature of the restructuring is likely to result in further redundancy or early retirement costs.

21. Post balance sheet event

There are no material post balance sheet events.

22. Financial Instruments

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

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

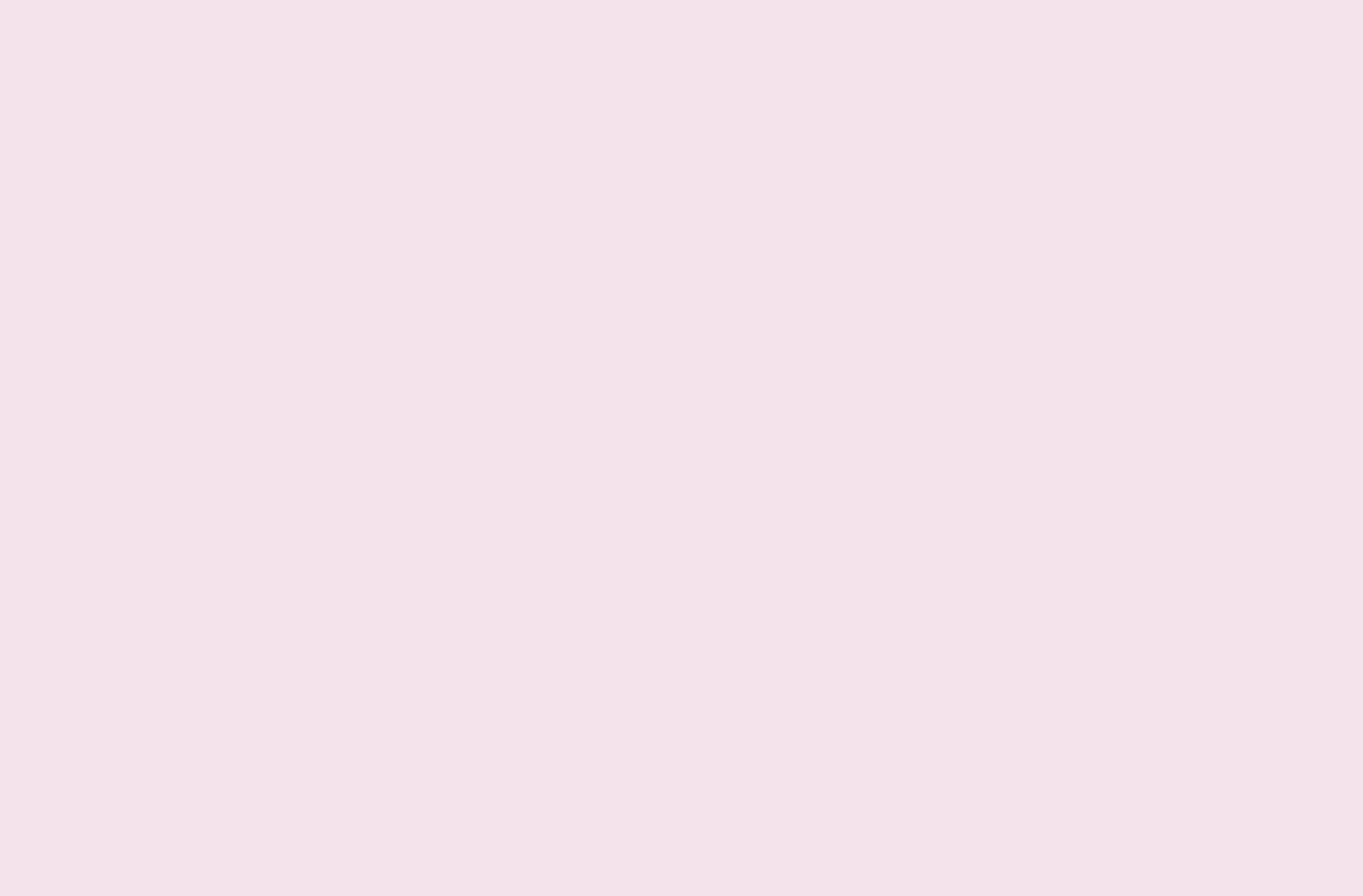
Liquidity risk – the Agency is not exposed to significant liquidity risk, as it has no borrowing facilities, and cash requirements are met by the Department of Health funding;

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

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

23. Intra-government balances

	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	463	-	45	-
Balances with local authorities	-	-	90	-
Balances with NHS Trusts	73	-	6	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	472	-	1,720	-
At 31 March 2005	1,008	-	1,861	-
Balances with other central government bodies	94	-	105	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	100	-	12	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	350	-	1,250	-
At 31 March 2004	544	-	1,367	-





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