

The NHS Business Services Authority
Annual Report and Accounts 2006-07

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Business Services Authority

ANNUAL REPORT AND ACCOUNTS

2006 - 07

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Chair's Introduction

The NHS Business Services Authority's first year was always going to be challenging, but we approached the merger of the five previously separate NHS organisations with a clear responsibility to those who depend upon us for a service. In doing so, we have made every effort to ensure that our clients and customers would not be adversely affected by the organisational changes. Looking back over the year, we have been successful in that respect, which is entirely due to the hard work and dedication of those people working across and throughout the NHS Business Services Authority. I would like to record my thanks to everyone who has played a role and for their individual contributions.

During the past year, we have also spent time both at Board level, and more widely across the organisation, considering and agreeing our values, strategy and business plan. This has ensured a clear and shared determination of our future direction, with a focus for our efforts and priorities to improve further value for money for the taxpayer. We will do this at the same time as providing better services to, and giving increased protection for, the whole of the NHS.

Our first year has demonstrated we are capable of achieving that objective as we have provided more, at significantly less cost. I have no doubt that we will continue to be able to sustain this, as I am confident our organisation is well prepared to make the tough and imaginative changes that will be needed. Our organisation will play a key role in modernising our services to our users and in delivering substantial value for money savings that can be made available to reinvest in the NHS, where it counts most, in patient care.

PAUL RICH
Chair NHS Business Services Authority

INTRODUCTION

The NHS Business Services Authority (NHSBSA) was created on 1st October 2005 following the Department of Health's review of the Arm's Length Body sector. On 1st April 2006, the NHSBSA formally incorporated five previously separate NHS organisations into a single Special Health Authority.

These previous five organisations were:

- Prescription Pricing Authority
- NHS Pensions Agency
- Dental Practice Board
- NHS Logistics
- NHS Counter Fraud and Security Management Services Authority

The review of Arm's Length Bodies (ALBs) was published by the Department of Health (DH) in July 2004. The review, entitled "*Reconfiguring the Department of Health's Arm's Length Bodies*", had the following five key drivers:

- The devolution of functions wherever appropriate to the frontline
- The appropriate impact for minimal burden
- The Gershon Efficiency Review
- The Lyons Review of public sector relocation
- To take an overview of ALBs across the health and social care system

The ALB Review Implementation Framework, which followed in November 2004, established the NHSBSA to "*represent the main processing facility and centre of excellence for payment, reimbursement, remuneration and reconciliation for NHS patients, employees, and other affiliated parties*".

However, the ALB Review Implementation Framework also states that the NHSBSA will develop a "*business model to deliver very significant savings through operational synergies and market testing as early as possible*."

It is expected that the NHSBSA will evolve from an organisation that undertakes significant operational activity to a procuring and commissioning organisation responsible for ensuring the delivery of high quality services, operational flexibility and offering best value for money for the taxpayer.

As the organisation develops and its procuring and commissioning role expands, the NHSBSA will develop the necessary skills to rigorously performance manage its contracts and thus ensuring service continuity through contract flexibility.

FUNCTIONS AND VISION

The NHSBSA was established with the responsibility to provide the following:

- The NHS Injury Benefits Scheme
- The NHS Bursary Scheme
- The NHS Pension Scheme
- Pharmaceutical Claims Processing
- The Purchasing and Supply of Products to the Health Service
- Processing Claims in relation to Primary Dental Services
- Provision of the European Health Insurance Card
- Counter Fraud and Security Management Services
- Provision of Services under Hosting Arrangements

In delivering these functions, the NHS Business Services Authority will address some challenging issues and provide some very significant savings for the taxpayer.

To be successful the NHSBSA needs to have a clear strategic direction. As such, the NHSBSA Board has agreed our vision over the next five years, as:

"To be the organisation of choice to provide business solutions that deliver service excellence and value for money."

This vision is supported by the NHSBSA's mission which is:

"Supporting the NHS, supplying the NHS, protecting the NHS."

Our mission encapsulates the work of the NHSBSA across all its functions and divisions and supports our vision. The vision and mission have been developed with input from across the whole NHSBSA to ensure all those involved in helping to achieve the vision share the belief as to what the NHSBSA should achieve over the next five years.

To support the effective delivery of our vision and business objectives, it is important to develop the appropriate environment within the NHSBSA.

In line with our vision, the NHSBSA will be an organisation working to provide business solutions that deliver service excellence and value for money. Successful delivery requires both corporate and individual employee commitment. In achieving that success and to develop the right environment, we will:

- Treat everyone fairly and with respect;
- Work constructively for the benefit of the business with employees, trade unions, contractors, clients and customers;

- Require the highest standards of openness and conduct from our employees and partners;
- Lead with clarity, integrity and by example;
- Be committed to innovation;
- Address unacceptable behaviour and performance.

This will be achieved over time through the introduction of a range of initiatives, training and policies designed to build a positive culture common within all parts of the NHSBSA.

This will be re-enforced and developed throughout the organisation by our behaviour and in all the NHSBSA's supporting plans and strategies in areas such as human resources, communications, health & safety, environmental, equality and diversity and commercial development.

The NHSBSA believes that to achieve our vision, we face four key and significant challenges, which are:

- Establishing a track record.
- Developing a new business model.
- Developing a new management model.
- Pursuing business growth opportunities.

This report deals with the first year of our operation as an organisation and therefore primarily focuses on our efforts to address our first key challenge in establishing our track record.

Prior to 1 April 2006 and prior to the establishment of a full Board for the NHSBSA, an initial business plan was compiled for 2006-9. This Plan set the key objectives for the NHSBSA as:

- Maintain business continuity for all services provided by the constituent organisations whilst creating the NHSBSA
- Achieve the challenging savings targets as set by the ALB Review
- Contract out services where appropriate whilst maintaining and improving quality
- Develop the structure and working arrangements for the NHSBSA, especially the performance management and commercial/contracting functions.
- Develop the NHSBSA role in policy development and implementation, ensuring that all policy developments are implemented effectively and on schedule (subject to the availability of funds).

The NHSBSA has performed well against each of these objectives as described in the following management commentary. However, it is also important to note that during 2006-7, the full Board of the NHSBSA invested significant time in developing a new five year strategy and vision as outlined above and a new annual business plan. This plan and its subsequent revisions will form the basis of future annual reports for the NHSBSA.

MANAGEMENT COMMENTARY

The NHSBSA has faced many challenges during its first year of operation. Crucially, the establishment of a single and effective organisation has been vital to our successful first year and as a platform for future success. This work has been undertaken whilst addressing the targets set by the ALB review.

Establishing the NHSBSA

The transition from five separate NHS organisations into a single body was not underestimated. During the first year, it was vital to maintain business continuity whilst creating the new organisation. The new NHSBSA needed to ensure a clear focus on the delivery of services whilst focussing on the needs of our clients and customers and keeping performance levels to a high standard and seeking to improve wherever possible. All this needed to occur within a financial framework mindful of the ALB review targets for financial savings and headcount numbers.

The five previously separate bodies' head offices were geographically spread across the country between Eastbourne, Newcastle, London, Alfreton and Fleetwood. This has meant that the NHSBSA has had to work particularly hard in developing corporate cohesion. This had been supported by the development and introduction of corporate systems and processes introducing consistency into key areas such as Human Resources and Finance. This work will continue into 2007-8 as we improve our corporate communications, IT and Estates infrastructures.

Each of the previously separate bodies has been established as a division within the NHSBSA. Each division is now lead by a newly appointed Divisional Managing Director with a supporting senior management team. These teams vary in size and skill mix depending upon the nature of their work. However, each has developed their own business plans and priorities for the year ahead.

Crucially, the NHSBSA achieved its key financial targets during 2006-7. The creation of the NHSBSA was driven by the ALB review's objective of reducing costs and improving efficiency. The organisation worked within its financial limits to establish the NHSBSA and then achieve financial balance at the end of 2006-7.

An important part of creating a single and focused organisation was the appointment of key individuals to lead the NHSBSA. A Chair and Chief Executive were appointed, together with Executive and Non Executive Directors to form the NHSBSA Board. The Board is very clear about ensuring the organisation remains focused on its customers and clients and delivering value for money for the taxpayer. In ensuring this clear focus, the Board have developed a five year strategy and annual business plan. These documents reflect the NHSBSA's determination to improve the efficiency of the organisation and support the targets set by the DH's ALB review.

The Board Members are:

Mr Paul Rich	Chair
Mr Nick Scholte	Chief Executive
Mrs Anne Galbraith	Non-Executive Director
Mr Michael Harling	Non-Executive Director
Mr David Hulf	Non-Executive Director
Mr Jeremy Strachan	Non-Executive Director
Mr David Teale	Non-Executive Director
Mr Alistair McDonald	Chief Operating Officer
Mr Jim Orr	Commercial Director
Mr Mike Siswick	Director of Human Resources
Mr John Smith	Director of Finance

Details of the directors' remuneration and any significant business interests are included in the remuneration report later in this document.

The Board has also established two committees which report directly to the Board. These are:

- Audit and Risk Management Committee
- Remuneration and Terms of Service Committee

The members of the Audit and Risk Management Committee for 2006-7 were David Hulf (Chair), Jeremy Strachan and Anne Galbraith. The members of the Remuneration and Terms of Service Committee are Michael Harling (Chair), David Teale and Paul Rich.

The wide range of skills and experience represented at Board level have ensured that it has been able to work effectively from an early stage providing direction and leadership for the organisation. The Board has agreed and considered, on a monthly basis, detailed financial and performance reports. These reports have been developed and tailored to meet the Board's requirements, concerning the availability of important and timely information together with key performance indicators for the NHSBSA's business.

A range of corporate functions have also been established to ensure an efficient and co-ordinated approach to the supporting infrastructure of the NHSBSA.

The Corporate Finance function has been established to support all business divisions and to ensure a consistent approach to financial management and control. This has extended to the preparation of annual accounts and supporting the introduction of wider systems such as the Electronic Staff Record. Also during 2006-7, a specific piece of work to consolidate all previous sets of accounts relating to the previous organisations was successfully undertaken.

A Corporate Human Resources (HR) function has also been established to support divisions in all personnel, training and development issues. The HR service has been particularly important to address the many staff issues involved with a merger the size of the NHSBSA. Working with the Unions, HR staff have led work to

establish an acceptable corporate set of staff related policies. This work will continue into 2007-8.

A Commercial function has also been established in the NHSBSA to lead contract development and supplier relations. This small team is lead by the Commercial Director who is also a member of the Board.

In addition to the above, the NHSBSA has appointed a Corporate Secretary to oversee governance arrangements and a Head of Internal Audit and Risk Management to lead those particular areas of work in a consistent and corporate manner.

Establishing Corporate Systems to Support the new NHSBSA.

To ensure the NHSBSA is as effective as possible, as quickly as possible, a variety of systems and processes have been introduced to reduce duplication, improve accuracy and cut expenditure. Common financial processes have been put into place to support the monitoring and management of financial flows and significant progress has been made towards consolidating all financial transactions onto one corporate finance system. Common procurement systems have been introduced to improve value for money in the purchasing of goods and services. These systems have been further strengthened by the introduction of a corporate team to oversee the procurement work and to oversee the necessary expertise in contract development and supplier management.

Human Resources have worked to introduce consistent approaches across a range of recruitment, training and other related issues. This work has been achieved with the support of the trade unions and remains ongoing into 2007-8.

Information governance and how the organisation handles requests for information under the Freedom of Information Act or Data Protection have been addressed corporately. Systems are now in place to ensure such requests are handled consistently and thoroughly. Further work in this area will continue in 2007-8 to ensure the NHSBSA improves further. A full range of corporate systems to manage corporate governance, risk, audit and business planning have also been introduced during 2006-7 and will be further developed during 2007-8. The systems introduced will be reviewed and tested for effectiveness to ensure the NHSBSA remains as efficient in its operations as possible.

Developments within NHSBSA Divisions

NHS Supply Chain Management Division

Upon establishment of the NHSBSA , the NHS Logistics service formed a business division. However in October 2006, this was replaced by the NHS Supply Chain which was established following the outsourcing of parts of supply chain services of the NHS to the logistics company DHL. The outsourcing also covered parts of the NHS Purchasing and Supply Agency (NHS PASA). The contract is planned to run over 10 years, during which time it is expected to offer cumulative savings of around £1bn for the NHS.

The NHSBSA has established the Supply Chain Management Division which will maintain primary accountability for ensuring the excellent delivery of services through performance management of the contracts. It will also work hard to understand NHS customer needs and translate those into appropriate service specifications. This management division will work closely with DHL and its customers to ensure that maximum benefits are realised from the contract and customers continue to receive an excellent service.

The transition from NHS Logistics to NHS Supply Chain was managed with no effect on service or performance.

Dental Services Division

The first major change to the NHS Primary Care Dentistry Services arrangements in over 50 years took place on 1 April 2006, with a new dental contract being introduced. This meant that the services provided by the former Dental Practice Board were generally no longer fit for purpose. During 2006-7 there has been a significant change in the way the Dental Services Division (DSD) is structured and delivers its services. For the first time, the DSD now provides services direct to Primary Care Trusts (PCTs) and Local Health Boards (LHBs) to assist them with the commissioning and monitoring of dental contracts locally.

The development of appropriate services has progressed significantly during 2006-7. This has involved extensive consultation initially in 2005-6 with the Department of Health and Welsh Assembly and then more recently with the wider NHS in the form of Strategic Health Authorities (SHAs), PCTs, LHBs and where relevant NHS shared business service centres.

Further enhancement to these services is inevitable over the next two years as the new NHS arrangements begin to mature and as PCTs and LHBs become ever more familiar and confident in their role as local commissioners of dental services. During 2006-7 the DSD has been restructured to ensure it has the appropriate skills necessary to improve its services, continue providing value for money and meet future challenges.

A new management team was appointed during 2006-7 who will continue to manage the outsourced work.

Prescription Pricing Division

The Division maintained a high standard of service delivery throughout the merger process. During 2006-7 the NHSBSA made significant advancements with the Division's Capacity Improvement Programme. This programme will establish improved technology which will significantly reduce the costs associated with processing of prescriptions.

The Programme will introduce the capability to receive electronic messages from the DH's electronic prescribing initiative and thereby further reduce operating costs. It will also allow changes to policy to be introduced at a much reduced cost. The new

system will be able to deal with continuing prescription growth, currently above 5.5% per annum, and an increasing range of prescribers eg nurses, without increasing unit cost. It is also expected that there will be a significant reduction in workforce numbers and associated estates requirements.

It is expected that during 2007-8, the Capacity Improvement Programme will progress with its roll out across the Division.

The Prescription Pricing Division (PPD) also continued to provide other functions during 2006-7, such as administration of the scheme under which people on a low income can get help with health costs and administration of the European Health Insurance Card scheme.

Also during 2006-7, extensive work was undertaken to move the management functions of the Student Grants Unit to the PPD. The Student Grants Unit administers the NHS Bursary Scheme providing bursaries and paying the tuition fees of students undertaking programmes leading to professional registration in a range of health disciplines. There are currently around 80,000 NHS funded students. In 2007-8 it will be accompanied by the full transfer of the Social Work Bursary Scheme from the General Social Care Council in 2007-8. These moves will improve efficiencies and reduce costs due to the similarities in the transactional nature of the work. Recipients of the bursaries will not be adversely affected by the changes but it is another example of how the NHSBSA is seeking to improve value for money.

The Authority's Business Plan also indicated that other business areas would be considered as to their suitability for outsourcing, with particular emphasis on the activities performed within the PPD. To that end a business case was submitted to the DH, outlining the likely costs and benefits. A ministerial decision was made not to proceed with this at the present time, primarily to allow the benefits of the Capacity Improvement Programme to be fully realised. During 2007-8 the Authority will explore the effects of this decision on its ability to meet, in the current year and future years, the stringent savings targets established by the DH.

Pensions Division

The NHS Pension Scheme provides a pension service to its large number of members both working and retired. Following an extensive consultation programme during 2006 and Department of Health negotiations with trade unions, changes to the NHS Pension Scheme have been proposed. These changes will mean that the NHSBSA will be required to run two differing pension schemes for existing and new members. The systems and processes used to manage the NHS Pensions Scheme are also undergoing a thorough review to ensure their long term suitability.

During 2006-7, the NHSBSA has fully reviewed the working structures within the Pensions Division. Significant efforts have been made to improve service delivery. This has included the supply of improved management information, introduction of performance targets and addressing the large backlog of outstanding work. KPIs indicate that improvements are being made but it is acknowledged that many service issues will take longer to address.

Throughout the above review processes, the NHSBSA remained focussed on the needs of its customers and the need to continue to improve services wherever possible. The year 2006-7 saw the introduction of key performance indicators for important areas of work within the Pensions Division and many improvements have been recorded in important areas such as the timeliness and accuracy of payments.

Detailed work within the Division is ongoing in preparation for the introduction of the new NHS pension scheme.

Counter Fraud and Security Management Services Division

The work of the Counter Fraud and Security Management Services Division (CFSMSD) is split into two areas, which are:

- Responsibility for preventing, detecting and investigating fraud against the NHS, and;
- Ensuring the security of staff and property throughout the NHS.

Over the last five years the CFSMSD has investigated over 1,900 cases of suspected fraud resulting in 216 criminal prosecutions and 275 civil or disciplinary sanctions. With a 97% successful prosecution rate, the Division has continued to take action against those who defraud the NHS.

Violence and abuse against NHS staff impacts directly on patient care and attacks on staff are treated with the utmost seriousness. The Division has developed a policy to prosecute, where appropriate, anyone who attacks or abuses NHS staff.

Throughout 2006-7, the Division retained its operational independence from the NHSBSA's management and Board in terms of the planning, delivery and development of its counter fraud and security management strategy and work. The Department of Health has also required the accountability arrangements for the Division to remain separate and its funding ring fenced.

During the last year, the NHSBSA established effective working relationships with the Division's DH sponsor and the inherited senior management team. Work has progressed to develop a Memorandum of Understanding to make the Division's status very clear in relation to a range of relevant issues, which it is intended will be in place during 2007-8.

Hosted Services

The NHSBSA provides a range of hosted and managed financial and HR services to DH teams and other health related organisations. By utilising the NHSBSA's expertise in these areas and the economies of scale available, significant value for money savings can be delivered to these bodies.

During 2006-7 the NHSBSA expanded the scope of the services that it provides to include a further three new DH teams.

Managing Performance

During 2006-7 the NHSBSA developed and agreed a range of Key Performance Indicators (KPIs) with the DH. These KPIs were developed to provide a high level overview of performance within key areas. The KPIs have been reviewed throughout the year to ensure they continue to provide relevant information and appropriate monitoring. During 2007-8, a revised set of KPIs will be introduced which will build on those used during 2006-7.

The indicators for 2006-7 covered the various aspects of service delivery and customer satisfaction as follows:



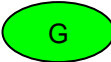
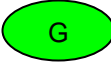


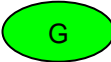


Service Delivery

- Payments: Measuring both the timeliness and accuracy of payments.
- Supply Chain: KPIs in this area measure both product availability and the timeliness of goods and orders received by Supply Chain customers.
- Case Administration: Measuring both the timeliness and accuracy of handling of relevant cases.
- Information: Measuring the timeliness of information supplied.
- Contact Centre: Measuring waiting times and the abandoned call rate within NHSBSA call centres.

Customer Satisfaction

The NHSBSA defines clients as those that fund our services and customers to be those who use our services. To ensure we continue to meet their varying requirements KPI's were agreed as necessary to measure client satisfaction and customer/user satisfaction. Work to adequately report against these KPI's has continued throughout 2006-7 and will provide appropriate feedback during 2007-8.

All the above KPIs were reported against throughout 2006-7 on a regular basis. The KPIs were coloured coded (**R**ed – **A**mber – **G**reen) and supported by a relevant commentary. A summary of the outturn of these KPI's for 2006-7 is given :

KPI	2006/07	Commentary
Payments – Timeliness (target 100%)		Pensions Division target for financial year not achieved
Payments – Accuracy (various targets depending upon service)		Accuracy targets for Student Grants under development
Supply Chain - product availability (target 98.2%)		
Supply Chain - goods/orders received on time (target 98.75%)		
Case Administration – Timeliness (target 100%)		Pensions Division target for financial year not achieved
Case Administration – Accuracy (various targets depending upon service)		
Information – Timeliness (target 100%)		
Contact Centre - Wait times (target 80% within 20 seconds)		
Contact centre - abandoned call rate (target < 5%)		Pensions Division target for financial year not achieved

(These KPI's are taken from locally held management information systems and monthly updates provided to the NHSBSA Board. Due to this being the first year of operation of the NHSBSA relevant comparator information is not available for previous years)

Human Resources Issues

Consultation

The creation and development of the NHSBSA has benefited from a continued partnership with both staff and unions.

A National Joint Committee (NJC) has been established for the NHSBSA for the purpose of negotiating and discussing matters of common interest such as:

- Future structure of the organisation,
- Harmonisation of HR policies and procedures,

- Development of business plans,
- Contracting process coupled with other matters arising from the creation of the NHSBSA and affecting the employment of the staff from the business Divisions.

The NJC meets periodically but not less than quarterly as agreed by the Committee.

At a local level, Joint Consultative Committees now operate to standard arrangements within the business divisions with a two way flow of information from the National Joint Committee and local Joint Consultative Committees to ensure that a common approach is taken across the NHSBSA.

More informally, communication with staff is carried out on an ongoing basis within divisions via team briefings, newsletters and intranet. The NHSBSA at Corporate level has produced a communications strategy and is in the process of appointing a Head of Corporate Communications who will take corporate responsibility for both internal and external communications.

Health & Safety

Although at an early stage, significant progress has been made with particular emphasis being placed upon the provision of a health and safety function which supports and guides management at all levels in becoming more self governing and accountable.

A NHSBSA Health and Safety strategy has been approved and adopted, as has health and safety policy documentation. All NHSBSA divisions have a nominated health and safety co-ordinator in place.

With regard to health and safety policies, there are three draft safety focus policies which were drafted during 2006-7. Other such policies are in the development stage. There are six safety focus briefings which have been developed and distributed throughout the NHSBSA, in addition to the five safety awareness briefings which have also been developed and distributed.

Training needs for successful implementation of the NHSBSA health and safety strategy have been identified and training proposals are in place. Approximately 1,500 PPD and Pensions staff have attended short health and safety briefings during 2006-7.

A NHSBSA national Health & Safety Committee will be operational in the spring of 2007 with divisional health and safety committees already established and operating during 2006-7.

Equality & Diversity

The NHSBSA attaches great importance to creating an environment, which fosters equality of opportunity and welcomes diversity amongst the workforce. The strategic 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, sexuality, religion or belief is treated with equity, dignity and respect.

Our aim is summarised in the following four key objectives;

- Creating an environment in which individual characteristics and the contributions of all staff are recognised, valued and able to flourish
- Providing a working environment which fosters dignity and mutual respect, in which no form of bullying, intimidation or harassment is tolerated
- Ensuring fair employment policies and practices are in place and operating
- Fostering equality and diversity as normal aspects of normal life

The NHSBSA Equality and Diversity Policy was produced during 2006-7 and covers equality of opportunity for all including those with a disability. The policy is currently undergoing consultation.

To enable us to show our commitment to good practice in employing disabled people the NHSBSA is actively pursuing recognition given by Jobcentre Plus to become a Disability Symbol User.

The NHSBSA aims to ensure that ability to do the job is the sole criterion for recruitment or advancement consistent with the principle of fair and open competition. Disabled employees had equal opportunities for training to develop new skills and advance their careers.

We have formed an Equality and Diversity Standing Committee with membership from across the divisions at the NHSBSA and representatives from each of the three trade unions to help us meet our legal obligations under the Equality legislation. Accordingly, we have published Race Equality, Disability Equality and Gender Equality schemes as required by the Race Relations (Amendment) Act 2000, the Disability Discrimination Act (DDA) 1995 (as amended by the DDA 2005) and the Sex Discrimination Act 1975 (Statutory Duties) Order 2006.

Equality legislation imposes certain duties on our organisation as a public body; one of the specific duties is a requirement to assess the impact of all policies on staff and service users. We have procured a consultancy service to help us take this forward. They will be providing an Impact Consultancy Service for the NHSBSA, which will involve training staff on the requirements of the legislation and how to conduct an Impact Assessment to enable us to fulfil our legal obligations.

The majority of our staff have now received Equality and Diversity training and there are new sessions planned for those who have not yet received the training. New recruits will have Equality and Diversity training included as part of their induction programme and a training plan is being developed to have a rolling programme for Equality and Diversity Refresher training.

Other Management Issues

Environment

A corporate approach to the impact of the NHSBSA on the environment is being developed. During 2006-7 the NHSBSA used the policies in place in each of the constituent bodies prior to the merger regarding the disposal of waste, the use of utilities, consumption of paper and general waste. The organisation aims to reduce consumption and generated waste and ensure recycling whenever possible. Environmental considerations are also included in procurement decisions where practical. Further development in this area will be addressed during 2007-8.

Major Incident Plan

During 2006-7, the NHSBSA has used the existing plans that were in place in each of the constituent bodies prior to the merger. These plans will be reviewed during 2007-8 and updated wherever necessary.

Freedom of information

The NHSBSA has adopted a publication scheme for 2006-7. This work combined the existing schemes across each of the constituent bodies whilst considering corporate requirements. The NHSBSA has established corporate systems and processes to handle Freedom of Information requests during 2006-7

Welsh Language

The NHSBSA has submitted a draft Welsh Language Scheme to the Welsh Language Board during 2006-7. This has been accepted as good practice in principle and the Authority will progress this work during 2007-8.

Complaints Management

The NHSBSA continues to support the well established systems for complaints managements that existed in each of the constituent bodies prior to the merger. During 2007-8, consideration will be given to the effectiveness and benefits of a combined system. As always, this will be guided by the principles of adding value and improving efficiency wherever possible.

Declaration of Interests by NHSBSA Board Members

Interests declared by members of the NHSBSA Board for the year 2006-7 are set out in the Remuneration Report included later in this Annual Report.

Annual Accounts 2006-7 Financial Review

As this is the first full financial year for the NHSBSA, the development of an appropriate accounting framework has been the subject of significant development work. In full consultation with the DH, the NHSBSA has developed a framework for the rationalisation of the thirteen sets of annual accounts that it inherited into three

sets. As well as the Administration Accounts set out in this Annual Report and Accounts, the NHSBSA is also responsible for the production of the NHS Pension Scheme Accounts and a set of Agency Accounts for financial transactions it undertakes on behalf of the DH (Pharmaceutical and General Dental payments).

The Administration Accounts set out in the financial statements attached to this report effectively represent the merger of the administration accounts of each division. Also included within the Administration Accounts are income and expenditure relating to the NHS Bursary Scheme, administered by the NHSBSA, and the trading accounts of NHS Supply Chain. Whilst the management of the Supply Chain function was outsourced to DHL, effective from October 2006, the working capital of the business (cash, stock, debtors and creditors), remains the responsibility of the NHSBSA and therefore is accounted for within the NHSBSA's Administration Accounts. A separate disclosure note to the accounts provides the detail of the Supply Chain trading activity, and likewise the NHSBSA balance sheet is broken down segmentally in the notes to the accounts to highlight the Supply Chain balances. The accounts highlight the trading activity of NHS Supply Chain for the six months prior to the outsourcing to DHL, when the Logistics operation was managed and operated in-house, as well as the trading activity for the six months following the outsourcing of activities.

The financial statements for the Authority have been prepared in accordance with the direction given by the Secretary of State for Health under section 98(2) of the NHS act 1977 (as amended) and in a format instructed by the DH with the approval of HM Treasury.

The DH's Arms Length Bodies Review process identified stringent financial targets for each of the reconfigured organisations. The NHSBSA was expected to deliver significant cash releasing and productivity savings (to reflect unfunded volume and price increases) during 2006-7. The NHSBSA's resource limit of £129.4m (£589.8m including Student Bursaries) was set at a level to reflect the requirement to deliver these savings. The NHSBSA's financial statements for 2006-7 show that the Authority reported a net resource outturn of £129.2m, (£589.6m including Student Bursaries) which was £0.2m below the revenue resource limit, thereby achieving the challenging savings targets for 2006-7.

Included in the above expenditure figures are transition costs totalling £2m, which relate to the cost of fundamental reorganisation, primarily redundancy costs, brought about by the merger of the five former constituent authorities to form the NHSBSA.

During the financial year the Authority considered its accounting treatment of the costs of developing software and systems, resulting in the capitalisation of expenditure relating to the PPD's Capacity Improvement Programme and the Pensions Modernisation Scheme. The capital resource outturn for 2006-7 was £11.3m, which was £5.4m under the capital resource limit provided of £16.7m. (prior to adjustments for the disposal of assets).

The NHSBSA also provides a range of hosted and managed financial and HR services, for which it has been provided with cash limits of £28.2m to cover expenditure on behalf of the organisations to which it provides services. This

expenditure is not included in the Authority's income and expenditure accounts and is either recharged back or charged against the individual cash limits for each of these organisations. However, the Authority's costs incurred in providing these services (primarily staff costs) have been included within the Authority's operating expenditure as has the total contributions from these organisations of £1.2m to cover these costs.

The NHSBSA has total net assets of £101.5m. Of this, £64.4m relates to the working capital balances of the NHS Supply Chain operation, now managed by DHL.

Looking to the future, the NHSBSA must continue to deliver value for money in the services that it delivers in order to meet the efficiency targets it has been set. The NHSBSA has devised its business plan for 2007-8 around the achievement of these savings targets.

There have been no post balance sheet events which materially impact upon any of the figures included in the financial statements of the NHSBSA for 2006-7.

Auditor

The Comptroller and Auditor General is appointed by statute to audit the NHSBSA. The audit fee for the year ended 31 March 2007 of £250,000 is for the audit of these accounts only and there was no remuneration paid to the auditors for non-audit work during the year.

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 below.

Accounting Officer's Disclosure to the Auditors

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

Principal Risks and Uncertainties

The NHSBSA has developed a robust approach to the identification and management of risk, including the development of corporate and divisional risk registers. The Statement on Internal Control, below, sets out the processes used to identify and manage risks. These processes were in place throughout the financial year.

Payment Policy

The NHSBSA's performance with respect to the Better Payment Practice Code is outlined in note 3.3 to the financial statements.

Resources

The NHSBSA has a diverse set of resources available to it in terms of its workforce, locations and assets. Key to the future of the NHSBSA is the breadth of knowledge and experience available in the various business divisions.

In total an average of 2,819 staff were directly employed by the NHSBSA throughout 2006-7 (excluding those transferred to DHL as part of the outsourcing arrangements).

The split between Divisions was as follows:

Organisation	Number of staff (wte)
Corporate Divisions	84
Prescription Pricing Division	2,067
NHS Supply Chain Management Division	14
Dental Services Division	99
Counter Fraud and Security Management Service	217
Pensions Division	338

The NHSBSA operates from the following main locations:

Organisation	Locations
Corporate Divisions	Newcastle
Prescription Pricing Division	Newcastle, Durham, Bolton, Liverpool, Manchester, Wakefield, Sheffield, West Bromwich, Preston
NHS Supply Chain Management Division	Alfreton
Dental Services Division	Eastbourne
Counter Fraud and Security Management Service	Coventry, London, Reading, Newcastle & Ilford
Pensions Division	Fleetwood

The NHSBSA as a stand alone Special Health Authority does not have any special relationships with other bodies other than those that it provides services to. This would include other NHS bodies that use NHSBSA information for the delivery of their services. The NHSBSA does provide support to other government bodies on an adhoc basis by providing information on the services it provides, and also through its hosted services.

Stakeholder relationships

In merging five disparate organisations, the NHSBSA has inherited a large number of stakeholder relationships to manage. It continues to communicate with policy colleagues in the DH to deliver the benefits of new policies and policy amendments. The ultimate customer for the majority of the services it provides is the wider NHS and its staff. Virtually every part of the NHS is touched in some way either directly or indirectly from the activities of the NHSBSA, for example by providing goods, supporting the supply of pharmaceutical drugs, providing an NHS pension or keeping staff secure at work.

There are some key relationships specific to the NHSBSA. A significant amount of the work of the NHSBSA is already contracted out to third party contractors and this has expanded through 2006-7. Contractor management is a vital area of excellence on which the NHSBSA is focusing. The Pensions Division is also continuing to work closely with the Government Actuaries Department and HM Treasury.

The NHSBSA Director of Human Resources has developed consultative mechanisms with trade unions.

REMUNERATION REPORT

This report for the year ended 31 March 2007 is produced by the Board. A Remuneration Committee was appointed by the Board and met in shadow form in February 2006. Thereafter, it met on seven occasions during the period 1 April 2006 to 31 March 2007. Its remit is to deal with the remuneration, benefits and terms of service of the Chief Executive, Executive Directors and such other senior managers specifically designated by the Board who report to the Chief Executive and have such responsibilities as are equivalent to those of Executive Directors.

Remuneration Committee

A Remuneration Committee, comprised of the Authority's Chairman and two Non-Executive Directors, was appointed by the Board and met in shadow form in February 2006. Thereafter, it met on 7 occasions in the period 1 April 2006 to 31 March 2007.

The terms of reference for the Committee are as follows:

The Remuneration Committee will:

- (i) Make recommendations to the Authority on the remuneration, benefits and terms of service of the Chief Executive, Executive Directors and such other posts as are specifically designated by the Board to be within their purview, ensuring that such officers are fairly rewarded for their individual contributions to the Organisation.
- (ii) Ensure that effective systems are in place and are being properly administered to monitor and evaluate the performance of individuals, including such assessments as may be required to determine the level of remuneration,

including any performance related pay or bonus payments for relevant employees.

- (iii) Advise and oversee contractual arrangements for relevant employees, including the calculation and scrutiny of termination payments, ensuring that such payments are appropriate, reflect best practice and take account of both national guidance and DH approval requirements.
- (iv) Take responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- (v) Satisfy itself with regard to the effectiveness of the plans and processes that are in place for succession planning, ensuring that these arrangements are supplemented by challenging and innovative management development programmes.

Remuneration Policy

The posts falling within the responsibility of the Remuneration and Terms of Service Committee will be; the Chief Executive, Chief Executive reportees who are Executive Directors and, exceptionally, any post which is analogous 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 those employees that fall within the remit of the Committee is established by the Department of Health under the terms and conditions of NHS Very Senior Managers.

Service contracts

Executive Directors are employed under Very Senior Manager contracts of employment, under the model issued by the Department of Health, as amended by the Authority.

There are no contractual clauses or any other agreements for compensation in the event of early termination of office.

Emoluments of Non Executive Board Members

The remuneration relating to all Directors in post in 2006-07 is detailed in the tables below which identify the salary, other payments and allowances and pension benefits applicable to both Executives and Non Executives which are subject to audit.

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

Name and Title	2006-07			Date of Contract Commencing	Contract Expires
	Salary in £5k bands £000	2006-07 Other Remuneration in £5k bands £000	Benefits in Kind (rounded to the nearest £100) £000		
P Rich Chairman	55-60	0	0	1 Oct 2005	31 Oct 2009
M Harling Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
D Teale Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
D Hulf Non Executive Director	10-15	0	0	1 Dec 2005	30 Nov 2009
J Strachan Non Executive Director	5-10	0	0	1 Dec 2005	30 Nov 2008
A Galbraith Non Executive Director	5-10	0	0	1 Apr 2006	31 Mar 2009

Emoluments of 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	Salary in £5k bands £000	2006-7 Other Remuneration in £5k bands £000	Benefits in Kind (rounded to the nearest £100) £000	Date of Contract Commencing	Contract Expires
N Scholte Chief Executive	140-145	0	8.6	1 Feb 2006	Ongoing
M Siswick Director of HR	85-90	0	2.9	1 Feb 2006	Ongoing
W J Smith Director of Finance	100-105	0	3.4	1 Feb 2006	Ongoing
J Orr Commercial Director	85-90*	0	0	3 Jul 2006	Ongoing
A McDonald Chief Operating Officer	100-105	0	5.4	1 May 2006	Ongoing

* part year only

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) £000	Real Increase in pension lump sum at aged 60 (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31 March 2007 (bands of £5,000) £000	Cash Equivalent Transfer Value at 31 March 2007 £000	Cash Equivalent Transfer Value at 31 March 2006 £000	Real Increase in Cash Equivalent Transfer Value £000	Employer's contribution to stakeholder pension £000
N.Scholte Chief Executive	0 – 2.5	5 – 7.5	30 - 35	100 - 105	458	416	22	0
M.Siswick Director of HR	0 – 2.5	5 – 7.5	10 - 15	35 – 40	n/a	n/a	n/a	0
W J Smith Director of Finance	7.5 – 10	22.5 – 25	40 – 45	120 –125	629	488	90	0
J Orr Commercial Director	0 – 2.5	2.5 – 5	0 – 5	0 – 5	17	0	12	0
A.McDonald Chief Operating Officer	5 – 7.5	17.5 – 20	30 – 35	100 –105	459	359	64	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.

Mr Jeremy Strachan	Trustee of Drugscope (National Charitable Trust) Company Secretary for Forensic Science Service Ltd (Government Owned Private Company)
Mrs Anne Galbraith	Member of Puffin Appeal (Charity Raising Funds for Cystic Fibrosis) Director of Durham School Chair of Valuation Tribunal Service Chair of Council for University of Durham Health Consultant (Self Employed) – Chaired Mental Health Inquiries.
Mr David Teale	Chair of Solutions SK (Company wholly owned by Stockport MBC). Chair and Member of Parkway Green Housing Trust (Charitable Trust) Chief Executive of Excellence North West and Chief Executive Designate of North of England Excellence
Mr Michael Harling	Shareholder in Xansa plc Shareholder in Deutsche Post Partner is also declared as being a shareholder in Xansa plc and Deutsche Post. Receives a pension from Xansa plc

Executive Directors

Mr Nick Scholte Chief Executive	Non-Executive Director of Supporta plc
Mr Mike Siswick Director of Human Resources	Nil Return
Mr John Smith Director of Finance	Nil Return
Mr Jim Orr Commercial Director	Nil Return
Mr Alistair McDonald Chief Operating Officer	Nil Return

Nick Scholte
Chief Executive
11 July 2007

STATEMENT OF THE BOARD'S AND 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, the NHSBSA is required to prepare a statement of accounts for each financial year in the form, and on the basis, determined by the Secretary of State, with the approval of Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the NHSBSA's 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 the Authority's accounts and for transmitting them to the Comptroller and Auditor General.

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

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and 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 the Accounting Officers' Memorandum issued by the DH.

Nick Scholte
Chief Executive
NHS Business Services Authority
11 July 2007

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accounting Officer and Chief Executive of the Board, I have responsibility for developing and maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives. I am also personally responsible for safeguarding the Authority's assets and public funds as set out in the Accounting Officer Memorandum.

The Authority was established in 2006 to manage 5 very different NHS business activities on behalf of the Department of Health, and accountability arrangements with the Department comprise an overall Authority sponsor and specialist sponsors linking with the Authority's business divisions. Comprehensive target setting, performance management and accountability arrangements are in place with the Department of Health.

The arrangements for managing the Counter Fraud and Security Management Service (CFSMS) have been distinct from the other divisions. The Department of Health has required the CFSMS to retain operational independence from the Authority management and Board in terms of the conduct, planning, delivery and development of its counter fraud and security management strategy and work. The Department of Health has also required the accountability arrangements for the CFSMS to remain separate and its funding ring fenced, although its expenditure forms part of the Authority's administration accounts

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

Systems of internal control were generally well established at the former bodies that were drawn together to form the NHSBSA, and where appropriate to the delivery of distinctive divisional services these have remained in place during the year. Where appropriate, corporate policies and procedures have been drawn up and implemented for application across all business divisions to reflect the needs of the new organisation.

Following the reconfiguration of the five former authorities into one, corporate arrangements to reflect the Authority's roles in target setting, performance management and overall harmonisation were not in place from day one. The NHSBSA's corporate system of internal control has been in development during the year ended 31 March 2007. Substantial progress has been made, although further development and embedment will be key elements of our work in 2007/08.

Capacity to handle risk

The Board is now well established and considers how the risks of the individual bodies and the corporate whole can be managed and mitigated. The directors reviewed the optimal method of managing risk across the Authority and identified the requirement for a Head of Internal Audit and Risk Management. This post was filled during 2006/07 and will be central to the internal control process for the Authority.

The Authority has developed a range of internal control and risk management processes, comprising:

- Clearly defined organisation structures and delegated authorities appropriate to the Authority's business
- Approval of Authority strategy and business plans by both the Authority and the Department of Health (DH)
- Regular internal review processes, supported by review with our DH sponsor branch
- Authority wide standards, policies and processes on core business activities including risk management, health and safety, financial management, managers code of conduct and corporate governance framework

The risk and control framework

The Board sets its objectives systematically through corporate strategy and business planning, and identifies the key risks to delivery of the plan. Risk management systems were well established at the former authorities from which the NHSBSA was formed, and locally these have remained in place. Corporate risk and control frameworks have been developing since the establishment of the Authority and a process of harmonisation started. These arrangements include:

- A corporate risk management strategy has been developed and approved by the Board covering both corporate and divisional requirements
- A high level corporate risk register has been compiled, which is regularly considered by the Board
- Existing divisional risk registers are being standardised and reported to the Authority regularly
- The successful delivery of each business division's objectives is monitored closely by the Director of Operations and the Executive Board using a suite of critical KPIs in the form of a balanced scorecard.
- A management assurance framework that maps out the policies and procedures through which the Authority's risks are managed has been developed
- An Audit and Risk Management Committee has been established, which 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 corporate risk register is reported to and considered regularly by the Committee
 - the management assurance framework referred to above is also a regular item considered by the Committee

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. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance and on the controls reviewed as part of the internal audit work. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance. To further corroborate management and accountability arrangements with the divisions, Divisional Managing Directors have provided me with letters of representation 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

Despite the different governance arrangements in place at the CFSMS, sufficient assurances have been gained through the CFSMS Divisional Managing Director's specific assurances and through the NHSBSA's Head of Internal Audit having reviewed and discussed the CFSMS internal audit reports and findings.

The assurance framework in place contributes to the evidence, and my confidence, that appropriate internal controls are in place and risks are being managed to deliver the NHSBSA's principal objectives.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Management Committee. As weaknesses emerge, or are flushed out by audit reviews, plans are put in place to address them. Progress with action plans is monitored by internal audit and overseen by the Audit and Risk Management Committee.

The Board has become well established during its first year and in my view has the right mix of skills and experience to deliver the Authority's strategic objectives. The Board has been advised by the Audit and Risk Management Committee about that Committee's activities, and in particular through its annual report to the Board.

Regular meetings have been held with sponsors from the Department of Health that confirm the Authority's overall progress towards planned targets. I have clear performance management arrangements in place with directors at Executive Board level. They in turn have developed arrangements for managing responsibilities at divisional level – a balance between empowering experienced teams with detailed business knowledge whilst making clear accountabilities for delivery of agreed objectives.

Internal audit arrangements have been strengthened and harmonised during the Authority's first year:

- A Head of Internal Audit and Risk Management has been appointed to standardise audit and risk management across the NHSBSA
- Using existing providers a comprehensive programme of internal audit projects has been undertaken to give the Authority independent assurance that controls are in place and functioning
- Going forward, the arrangements for internal audit have been rationalised considerably through the appointment of PwC as internal audit contractors to the Authority from 1 April 2007

In summary, the review above has given me significant assurance that the divisions were generally maintaining the good systems of internal control that they previously had in place as statutory bodies. During 2006/07, the Authority has established itself, assumed responsibility for 5 diverse business units, met all significant business objectives whilst the control environment has remained strong in most areas and been further developed at a corporate level.

Significant control issues

A number of control issues were identified at the Pensions Division by management, internal audit and the NAO. These related to the quality of data held by the Division in relation to the student bursaries that it administers for the NHS, and an error in the process of awarding injury benefits to scheme members. The need for increased control at employing NHS bodies around the integrity of pension information (outside the responsibility of the NHSBSA) has also been recognised, and the wider NHS is making arrangements for increased reporting and accountability. The NHSBSA has moved quickly to strengthen management arrangements at the Division and a new team is beginning to improve the situation there.

Governance arrangements for the CFSMS are currently under review with the Department of Health. Accountabilities are being clarified and more explicit management arrangements and will be in place for 2007/08.

Nick Scholte
Chief Executive
NHS Business Services Authority
11 July 2007

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

I certify that I have audited the financial statements of the NHS Business Services Authority (NHSBSA) for the year ended 31 March 2007 under the National Health Service Act 2006. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

The Chief Executive, as Accounting Officer, is responsible for preparing the Annual Report, which includes 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, certain information given in the Annual Report, which comprises the Introduction to Accounts, Function and Vision and Management Commentary 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 relevant authorities 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 to 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 opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board and Chief Executive 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 my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

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

Qualified Opinions arising from a limitation in audit scope

Audit Opinion

In my opinion:

- except for any adjustments which might have been found to be necessary had I been able to obtain sufficient evidence concerning the accuracy of bursary awards in payment during the year, the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of the Treasury, of the state of the Authority's affairs as at 31 March 2007, and of its net resource outturn, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of the Treasury; and

- information given within the annual report which includes the Introduction to Accounts, Function and Vision and Management Commentary is consistent with the financial statements.

Audit Opinion on Regularity

Except for the expenditure on bursary awards in year where I could not determine that awards were in accordance with the rules of the scheme, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

Further details relating to student bursaries are set out in my report on page 34

John Bourn
Comptroller and Auditor General

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

17 July 2007

NHS Business Services Authority Administration Account 2006-07 Report by the Comptroller and Auditor General

Introduction

1. The NHS Pensions Agency Special Health Authority became responsible for making grants to students under the NHS Bursary Scheme in England on 1 April 2004. The Agency became part of the new NHS Business Services Authority (NHSBSA) from 1 April 2006. The 2006-07 NHSBSA Administration Account includes the costs of administering the NHS Student Bursary Scheme, and in 2006-07, some £460 million was paid to students under the NHS Bursary scheme.
2. Under the scheme students attending approved diploma, degree and medical courses are eligible to receive bursary payments during the duration of their study. Payments typically cover study costs and living expenses and support for dependent relatives, and usually cover a period of between 1 and 6 years.

Audit Opinion

3. I have qualified my opinion on the account because I am unable to confirm that NHSBSA has maintained proper accounting records for certain bursary payments and that I have received all the information and explanations I require for my audit. Specifically, the evidence made available by NHSBSA to support amounts recorded in the account for bursary payments totalling £460 million was limited to a significant degree.

Scope limitation

4. I qualified my opinion on the NHS Pensions Agency 2005-06 Administration Account because the evidence available to support amounts recorded for bursary payments was limited. Analysis carried out by the Agency in 2005 and reviewed by the National Audit Office suggested that the majority of the missing documentation related to awards made in 2001-02 and 2002-03 but it was unable to establish whether the documentation had not been obtained, whether the documentation had been obtained but copies had not been retained on file, or whether the documentation had been mislaid during the intervening period.
5. During 2005-06 the Agency performed an audit of all 94,800 case files covering 115,400 award decisions made between 1999-00 and 2005-06. The number of unsupported cases found by the Agency was 9,321 (9 per cent). The missing documents ranged from:
 - forms of identity (51 per cent);
 - evidence of income (18 per cent);
 - proof of lone parent status (12 per cent);
 - birth certificates for dependants (9 per cent);
 - immigration status (6 per cent);
 - proof of marital status (3 per cent); and
 - proof of dependants' income (1 per cent).

6. In each case the Agency attempted to contact the student to confirm that their circumstances accord with the award decision. Replies were received from 4,141 (45 percent) of the 9,321 cases with missing documentation and 104 awards were identified as being substantially inaccurate. Recovery action was required for a total of £26,134 in respect of these cases. Due to difficulties in locating former students, the remaining 5,180 cases (55 per cent) were not pursued further. It is therefore not possible to determine the true extent of any over or underpayment that may have occurred in these cases. I previously reported in my 2005-06 report that the maximum extent of any overpayment could be around £20.7 million assuming all 5180 awards were inaccurate or not in accordance with scheme rules. In the context of these specific awards my staff have been informed that the maximum potential overpayment figure in respect of 2006-07 will be around £7.3m. This remains a significant figure because a high proportion of the awards in payment in 2005/06 continued to be in payment in 2006/07.
7. Further review in 2006-07 has indicated that missing documentation remains an ongoing issue. An internal management review reported in January 2007 highlighted that missing documentation rates remained at a level of 2.5%.
8. Since January 2007, the Student Grants Unit has taken steps to strengthen internal controls to ensure that all appropriate evidence to support award decisions is seen and retained. This includes Quality Assurance checks that were previously carried out retrospectively now being carried out in advance of payment, to avoid erroneous payments.
9. In light of ongoing issues associated with controls over bursary payments in the majority of 2006/07, the missing documentation in relation to awards from earlier years which are still in payment during 2006-07 and further issues relating to documentation supporting new awards made in 2006-07 I cannot determine that the relevant awards were made accurately and in accordance with scheme rules. This represents a significant limitation on the scope of my audit.
10. I note the continued steps being taken by the NHSBSA to further review the system of control in place which will ensure that the correct supporting evidence is collected and maintained for all new bursary awards. My staff will consider the impact of this as part of the 2007/08 audit.

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17 July 2007

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