

Foreword

The accounts for the year ended 31 March 2003 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 as instructed by the Department of Health with the approval of HM Treasury.

The Prescription Pricing Authority (the Authority) is constituted under the Prescription Pricing Authority Constitution Order 1990 (as amended). The Authority undertakes a range of functions on behalf of the Secretary of State for Health. These include:

- The examination, checking, investigation and pricing of prescriptions for drugs, medicines and listed appliances, supplied as pharmaceutical services under the NHS Act 1977;
- The calculation of reimbursements due to dispensing contractors in the primary care sector and payments to pharmacy contractors, including notification to Health Authorities of amounts paid for budgetary purposes;
- The prompt and regular provision of information, analysing costs and prescribing trends of General Practitioners, together with an analysis of the number of prescriptions;
- The compilation, publication and distribution on a monthly basis of the Drug Tariff in a manner approved by the Secretary of State for Health;
- The administration on behalf of the Secretary of State for Health of the NHS Low Income Scheme in accordance with the provisions of the NHS (Travelling Expenses and Remission of Charges) Regulations 1988 (as amended);
- From 1 October 2002, the issue of NHS prepayment certificates to the public and collection of income deriving from this;
- The investigation, within the primary care prescribing sector, of irregularities by patients and contractors, the recovery of unpaid charges and the operation of the Pharmacy Reward Scheme. This function was transferred to the NHS Counter Fraud and Security Management Services Special Health Authority from 1 January 2003.

The Authority is required by the Department of Health to produce two sets of accounts. One is in relation to the operation of the Authority in dealing with the aforementioned functions (the Main Administration Accounts). The second set of accounts is in relation to those elements of payments made in respect of pharmaceutical services that are not accounted for by Primary Care Trusts or NHS Hospital Trusts.

The Authority acts as an agent of the Department of Health, Primary Care Trusts and NHS Hospital Trusts for the payment of pharmacists, appliance contracts and oxygen concentrator suppliers. The basic cost of drugs and any discretionary local payments are recharged back to the prescribing body and are included in their accounts. Dispensing fees, patient charges and non-discretionary payments are accounted for by the Authority separately within the Pharmaceutical Accounts. The Authority calculates and authorises the payments for dispensing doctors and personal administration claims, but the actual payments to GPs are made by Primary Care Trusts.

The Authority has no contractual relationship with dispensers, who work under contract to their local Primary Care Trust. The Authority does not, therefore, authorise the payment of additional fees or monitor the quality of service provided by dispensers. In relation to patient exemption checking the Authority has no power to instruct the dispenser to ensure that the patient exemption is claimed correctly. However, until 1 January 2003, the Authority was instructed by the Department of Health to carry out a number of checks on those patients who claim exemption from prescription charges. The number of these checks is determined by the Secretary of State for Health.

The Department of Health periodically undertakes an exercise to determine the level of patient charges not being recovered by dispensers. The last exercise, undertaken in 1999-2000, estimated that £59 million was evaded through deliberate fraud and a further £10 million through unintentional evasion. Confirmation has been received that the measures put in place to curb fraud and evasion has reduced these levels. The Authority has no management responsibility to ensure the collection of this income at source and relies solely on a third party, the dispenser, to ensure that the necessary checks are made. As a result of the patient exemption checks performed by the Authority, some additional money is recovered.

Pharmaceutical Accounts

These accounts include those elements of the overall pharmacists' or doctors' remuneration which the Authority pays on behalf of the Department of Health and Primary Care Trusts. The fees shown are those in respect of remuneration paid to Contractors, but exclude the remuneration paid to dispensing doctors as this is accounted for by the relevant PCT. Similarly, patient charges collected are accounted for only as far as the sums recorded by pharmacy contractors, with those charges collected by dispensing doctors recorded in Primary Care Trust accounts. Up to 30 September 2002, the income collected from the sale of NHS prescription prepayment certificates was accounted for by Health Authorities, but from 1 October 2002 the Authority took over responsibility for the administration and accounting of income received from this source.

To avoid double counting within the NHS nationally these accounts are shown net of recharges made to other NHS bodies. The main effect is to exclude any drug reimbursement costs, recharged to the prescriber as well as patient charges and remuneration that is collected from, or due to, dispensing doctors or those GPs that submit personal administration claims. There is a relatively small recharge made to NHS Trusts in respect of forms FP10 (HP) which are dispensed by community pharmacies. In previous years this expenditure has been included within the overall dispensing totals. From 1 April 2002 the Authority was given responsibility for recharging hospital trusts direct and therefore this element is now shown net in the accounts. As the recharging timetable runs a further 2 months behind the pricing timetable it is necessary to estimate the costs of these elements by extrapolation from the known costs for the latest 12 month period available. These charges were estimated to be £13.5 million for fees and £3 million for patient charges, in 2001-02.

Another notable change in the year has been the transfer of responsibility for the sale of NHS Prescription Prepayment Certificates (PPCs) from Health Authorities to the PPA. In support of the structural changes brought about by the White Paper 'Shifting the Balance of Power', it was agreed that the previous responsibility for the sale of PPCs and issue of Medical and Maternity exemption certificates should not transfer to PCTs but instead to the Authority. This has the advantage of providing a consistent, national service to all NHS patients in England. All applications for these certificates received on and after 1 October 2002 were processed by the Authority and the resultant income for 6 months of £31.7 million is included in these accounts. As individual health authorities previously accounted for this income it is not known how this compares to the equivalent period in previous years.

There has been a change in the responsibility for countering fraud in the NHS with the establishment of a new Special Health Authority, the NHS Counter Fraud and Security Management Services Authority (NHSCFSMS) on 1 January 2003. The new Authority took on the responsibility for the management of the work previously undertaken by the PPA's Compliance Unit and is now responsible for checking patient exemption claims. Income from patients found to be wrongly claiming exemption has been recorded in the accounts up to that date. The outstanding debtors' balance at 31 December 2002 has been transferred to the NHSCFSMS and the general reserve adjusted accordingly. The Pharmaceutical Services Account only records the income that arises from the original prescription charge. Those elements of the recovered sums in respect of penalty charge and surcharge income accrues to the Main Administration Account.

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The operating cost statement shows a net operating cost of £424.9 million. This is non-discretionary expenditure and is met fully by the DH resource limit. This cost is £15.7 million less than the previous year. The level of increase in the fee element of the account is 2.7%, although after adjusting 2001-02 for FP10 (HP) forms, the increase is 4.6% which is in line with the increase expected by the Department of Health. The number of prescription items rose by 5.5% but a fall in the average fee rate from £1.34 to £1.32 reduced the increase in cost to that agreed by the Department of Health. The basic dispensing fee rose by 3p on 1 April 2002, following a fall of 6p from 1 November 2001, this was accompanied by reductions in expensive item fees container allowances and the abolition of the fee related threshold quantity. The Department of Health negotiates all fees.

Locally authorised payments have also increased with the continued shift from oxygen cylinders to oxygen concentrators being the most significant factor. In 2001-02 the Authority was still recovering interim payments made as a result of the backlog caused by an exceptional volume of Category D items claimed. The 2001-02 accounts included recovery of £6 million that had been made in prior years and this reduced the net cost of local payments in that year.

The level of income collected by the Authority has risen by a total of £40.1 million, with £31.7 million accounted for by the inclusion of prepayment certificate income for the first time from 1 October 2002. Patient charges collected by pharmacists have increased by over £8 million (2.5%) and after an adjustment in respect of hospital forms from 2001-02, the increase is 3.4%. There had been an increase of 1.6% in the prescription charge rate from 1 April 2002, and a 1.5% increase in the number of charges collected.

The Compliance Unit maintained the number of checks they performed to 400,000 per annum in line with the number established by the Secretary of State. Only 9 months income is accounted for in these accounts as the unit transferred to the NHSCFSMS on 1 January 2003. The level of recovery is in line with that recorded in 2001-02 as the penalty charges start to impact on the numbers of people incorrectly claiming an exemption.

PPC sales for the 6 month period from 1 October 2002 totalled £31.7 million which comprises the single largest element in the income growth. Over 550,000 certificates were sold with a further 373,000 issued free of charge for maternity or medical exemption reasons.

There are no fixed assets associated with the Pharmaceutical Services Account. The balance sheet consists of debtors, creditors, cash and the General Fund. After adjustments for FP10 (HP) forms and the transfer of relevant debtors to new NHSCFSMS the increase in debtors was mainly due to the total of £0.6 million outstanding from the sale of PPCs, and the increase in the prescription charge. The increase in patient charges collected in the last 3 months of the year was below that experienced in the earlier part of the year at 0.2%. The rise in creditors at 3% after adjusting 2001-02 was in line with the increase in fee expenditure. The adjustment to the General Fund is in respect of transferring the debtors that will be collected by the new NHSCFSMS. As this is another NHS body no cash transactions have taken place. The income in respect of these debtors has been included in the operating cost of the Authority prior to 31 December 2002 and therefore supported the General Fund.

Main Administration Accounts

These accounts have been prepared in line with the DH Special Health Authority Manual for Accounts 2002-03. The Authority reported a net operating cost of £64.1 million, which matched the revenue resource limit. The capital resource outturn was £4.4 million, which was £2.2 million below the capital resource limit of £6.6 million (shown in Notes 3.1 and 3.2).

The Authority was also required to stay within the overall cash limit of £66.5 million. This was achieved and there was a balance of £125k in the Authority's bank accounts at 31st March 2003. This balance, higher than would normally be the case at other times of the year, resulted from a large receipt received on the last banking day of the year.

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The Authority experienced major funding changes during 2002-03, the most significant of which was the removal of any funding that had previously been given to recover from the back log created by increased Category D prescriptions. The costs in 2001-02 for this exercise approached £5 million. Apart from increases to cover inflation and prescription growth amounting to almost £3.5 million two significant elements that were funded during the year were in respect of the commencement of responsibility for the issue of NHS Prepayment Certificates and the Electronic Transfer of Prescriptions (ETP) initiative.

The Authority was allocated £1.8 million in 2002-03 to cover the cost of creating a new system and the subsequent operational costs associated with the issue of prepayment certificates, maternity exemption certificates and medical exemption certificates from 1 October 2002. Income from the sale of these certificates is shown in the Pharmaceutical Accounts. In subsequent years, the full year operating cost of issuing these certificates is estimated to be in excess of £2.1 million.

The ETP Initiative covered the support of the ETP pilot sites, the processing of electronically transmitted prescriptions, the production of the Primary Care Drug Dictionary and the role out of the three pilot systems. The total cost in 2002-03 was in the region of £2.4 million. Other initiatives that were funded during the year were NHS organisational changes resulting from Shifting the Balance of Power White Paper (£280k), and the initial set up costs for a system to issue exemption certificates on the grounds of tax credits due to commence on 1 April 2003 (£100k).

Major capital schemes undertaken during the year included new numbering machines that include a scanning facility (around £3 million) and the replacement of mainframe processors at a cost of £1.9 million. As a result of its expanded range of activities, the Authority rented an additional 2,040 square metres of office accommodation at Cuthbert House in Newcastle, which required a set up cost of £500k and will incur additional running costs of £585k per annum.

The Authority's uplift from the Department of Health to cover inflation and pay awards was 2.5%. However the cost to the Authority of the Administrative and Clerical Staffs pay award, including underpinning for lower pay bands amounted to 4.2%. This shortfall was funded by efficiencies that the Authority generated through restructuring and cost improvement programmes. In total over £1.6 million was released which the DH agreed should be used to support initiatives for which funds had not been initially allocated. These included, amongst other areas, changes to accommodate the Local Pharmacy Scheme Initiative, investment to progress the NHS Improving Working Lives programme, and the production of a new level prescribing report for PCT Boards reports. The Department of Health also received efficiency savings of £230k as part of the ongoing agreed cost improvement programme with the Authority.

The Authority agreed with the Department of Health a total brokerage of £3.5 million from 2002-03 to 2003-04. The major elements are described below:

-£1.6 million was in respect of funding received in 2002/03 for the introduction of tax credit exemption certificate production that was not required until 2003/04.

-£450k from the total allocation of £2.33 million made in 2002/03 for ETP. This resulted from delays in the growth of the pilot schemes, an extended rollout timetable, and delays to additional license requirements resulting from this.

-£600k in respect of building refurbishment. The £1.1 million scheme to upgrade extensive areas of the headquarters building in Newcastle, including renewal of the air-conditioning system, has been slightly delayed for a number of reasons, including the need to ensure the safe removal of asbestos. The work will now be completed in 2003/2004.

-£450k for the production of an electronic version of the Drug Tariff. The allocation was agreed in 2002/03. However, the design and production of the electronic drug tariff will not be carried out until 2003/04, with the allocation carried forward as a result.

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-£100k for running costs associated with the new prescription scanners. The original plan for the implementation of the new scanners has been slightly delayed. This has resulted in the additional revenue costs associated with the initial capital spend of £1.8m now being required in 2003/04.

-£300k for payments associated with the pension costs of early retirements due to reorganisation. The accounting rules require the full cost of early retirement enhancements to be charged to Operating Costs at the time of retirement. As a result of the Operations Directorate restructuring, there is a requirement to broker funds from 2002/03 to 2003/04 in relation to the retirement of staff early in 2003/04.

The transfer of the PPA Compliance Unit to NHSCFSMS has also had an impact for these financial statements. Income and expenditure incurred for Compliance to 31 December 2002 has been included. The debtors and creditors on 1 January 2003 have been transferred to the new Authority and the General Fund adjusted in line with the treatment in the Pharmaceutical Services Accounts. In line with advice from the Department of Health the Prescription Fraud Team expenditure of £555k has been included for the full year as the total resource limit was given to the PPA for this purpose. This will transfer, for accounting purposes, to the NHSCFSMS on 1 April 2003. The Authority continues to provide financial and human resources services to an increasing range of external bodies. Cash limits in excess of £93 million were given to cover expenditure by the following organisations:

- NHS Modernisation Agency
- Health and Social Care Change Agents Team
- NHSU
- Expert Patient Programme
- NHS Clinical Assessment System Joint Development Team

This expenditure is not included in the Authority accounts as it is recharged back to the originating organisation. However, the Authority's costs incurred in providing these services has been included along with the total contribution from the organisations of £745k towards these costs. As payment for the organisations' expenditure was made by the Authority, recoverable VAT was charged to the Authority's debtor account, with the relevant organisation being charged the net cost. The Authority will continue to provide these services into 2003-04 as well as similar services for the NHSCFSMS, the NHS Graduate Training Scheme and the National Primary Care Development Team.

The Authority has made a concerted effort to reduce the level of creditors and increase the speed of creditor payments. Over 98% of the value of invoices received are paid within 30 days and there has been a reduction of £1 million in the level of outstanding payments.

The level of debtors have risen by almost £0.6 million. There was a reduction in the provision for debtors relating to prescription penalty charges, as these were transferred during the year. However the level of outstanding VAT reclaimable has almost doubled and covers the period January to March.

Summary

This was another satisfactory year for the Authority's finances. Both cash and resource limits were not exceeded. Significant investment has been made in the IT services to allow acceptance of electronically transmitted prescriptions and new capacity has been brought on line to deal with prescription growth. The level of efficiencies achieved has allowed approved developments to be funded that would not have been otherwise have been achieved.