

## Finance Report

The accounts for the year ended 31 March 2002 have been prepared in accordance with the Direction given by the Secretary of State under section 98(2) of the NHS Act 1977 (as amended) and in a format as instructed by the Department of Health (DH) 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 and cost 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);
- 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.

The Authority is required by the DH to produce two sets of accounts, one in relation to the operation of the Authority in dealing with the functions outlined above, and the other for those elements of payments made in respect of pharmaceutical services that are not accounted for by Health Authorities.

The Authority acts as an agent of the DH and Health Authorities for the payment of pharmacists, appliance contractors and oxygen concentrator suppliers. The basic cost of drugs and any discretionary local payments are recharged back to Health Authorities and included as such in their accounts. Dispensing fees, patient charges and non-discretionary local 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 Health Authorities.

The Authority has no contractual relationship with dispensers, who work under contract to their local Health Authority. 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 patient exemption is claimed correctly. However, the Authority is instructed by the DH 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.

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

### **Audit Opinion**

The opinion of the external auditors of the Administration Account was that the statements gave a true and fair view of the state of affairs of the Authority and that the expenditure and income had been applied to the purpose intended by Parliament. With regard to the Pharmaceutical Services Account, a qualified opinion was given due to the non-receipt of patient prescription charge income through unintentional evasion and fraud, detailed above. In all other respects, the financial statements gave a true and fair view of the affairs of the Authority.

### **Pharmaceutical Services Account**

These accounts include the elements which the Authority pays on behalf of the DH and Health Authorities. 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 Health Authority. Similarly, patient charges collected are those that are paid to Contractors and exclude those charges paid to dispensing doctors or to Health Authorities for prepayment certificates, both of which are accounted for by the relevant Health Authority.

The operating cost statement shows a net operating cost of £440.5million. This is non-discretionary expenditure and is met fully by the DH resource limit. Despite an increase of 11% in the NHS primary care drug costs between 2000-2001 and 2001-2002 the increase in this element is only 1.1%. The reasons for this are explained below.

There has been an increase in the fees and oncosts of less than £11million (1.48%). The growth in the number of fees paid was 5.6%. However charges were reduced from 97.5p to 87.4p per item in November 2001 and then increased to 91.6p in February 2002. The effect of these price changes was to lead to an increase in fees paid below the rate of the increase in items.

Local payments, authorised by Health Authorities and paid via the Authority to Contractors, have increased by £4million (12.54%). This is due mainly to the increase in expenditure on Oxygen Services including the Oxygen Concentrator Service. The number of installations in 2001-2002 rose by 15.7%. There was also a significant increase in expenditure authorised by Health Authorities on Oxygen Services.

The level of income collected by the Authority rose by 3% to just under £336million. The largest proportion of this income is collected by contractors when patients pay prescription charges. The number of charges collected rose by 1.84% from 54.1million to 55.1million and this coupled with a 1.6% increase in the prescription fee effective from 1 April 2001 has led to a 3% rise in patient charges. Although prescription growth was 5.6%, the number of charges collected did not match this growth. The value of prepayment certificates sold during the year is not known to the Authority as these are accounted for by Health Authorities. No conclusions can therefore be drawn on the overall proportion of exempt and paid prescriptions.

The Compliance Unit increased the level of recoveries from £342,000 in 2000-2001 to £444,000 in 2001-2002, which is an increase of nearly 30%. The unit maintained checks at the level of 400,000 per annum as directed but has used experience gained in previous years to target these checks more effectively and therefore a higher level of recovery has been achieved. The increase in the prescription charge of 1.6% has also made an impact in the value of recoveries.

There are no fixed assets associated with the Pharmaceutical Services Account. The balance sheet therefore consists only of debtors, creditors, cash and the General Fund. The level of debtors attributable to dispensing contractors rose by 2.5% to £83.8million. As the Category D backlog has been eliminated there is no longer an interim payment system in operation and therefore the estimates of year end debtors are more accurate. The level of this increase is in line with that expected from the increase in patient charges. On advice from the DH and the National Audit Office, funding due from the DH in respect of outstanding creditors is to be treated as a charge to the General Fund and not as a debtor. A prior period adjustment was made to reflect this change and the 2000-2001 accounts have been restated.

The level of creditors at 31st March 2002 is about 5% higher at £130.6million than the corresponding figure for 31st March 2001. This consists of a 4.8% increase in the remuneration element to contractors and a 4.4% increase in local payments. Both of these are commensurate with that expected from changes in volume and prices.

There are three developments that may impinge on this account in 2002-2003. As from 1 April 2002 the Authority will take over responsibility for recharging hospital trusts for the cost of their prescribing which is dispensed in the community (see Note 14). This will bring back into this account the element of drugs associated with this prescribing and also the recharges that will be made.

From 1 October 2002 the Authority will be responsible for the sale of prepayment certificates. This is currently accounted for as income by Health Authorities and will be offset against the Authority operating costs after the transfer of responsibility is made.

At some stage during the course of 2002 the Compliance Unit is expected to become the direct responsibility of the NHS CFS. Although the accounting changes have not been finally agreed it is anticipated that the Authority will no longer account for any recoveries made by the Compliance Unit.

### **Main Administration Accounts**

These accounts have been prepared in line with the DH Special Health Authority Manual for Accounts 2001-2002. The Authority reported a Net Operating Cost of £62.1million which was £2.7million below the revenue resource limit of £64.8million. The Capital Resource Outturn was £2.5million, which was £0.6million below the capital resource limit of £3.1million. This is shown in notes 2.2 and 2.3. The Authority was also required to stay within the cash limit of £62.8million. This was achieved, and £66,000 remained in the Authority's bank account at 31 March 2002. This bank balance represents 0.1% of the total cash limit and is well within the normal operational requirements.

The Authority experienced major funding changes during 2000-2001, the most significant of which was a reduction of £3.2million in the amount required to reduce the processing backlog created by the increased Category D prescriptions which started in 1999. During 2000-2001 the Authority received over £7million to fund both staff and equipment to stop the backlog increasing and eventually eliminate it. Normal processing cycles were achieved in September 2001 at a cost of £3.8million above the baseline running costs.

The recovery strategy allowed management to reconsider the processing operation to ensure that the Authority can optimise flexibility for changes in prescription volume. The result of this review was to split the processing of functions into sub processes that allow more common prescriptions to be processed separately. The advantage is that highly trained staff concentrate their skills on the complex prescriptions and therefore overall training times for new staff are reduced. In addition to these system changes the Authority employed additional staff as well as high levels of overtime working. There was a significant number of staff leaving as the backlog was cleared. However the Authority was required to make 121 staff redundant (including 22 who were given early retirement) during September 2001. The cost of these redundancies was £538,000. The Authority also took the decision to capitalise a number of early retirement pension provisions. The cost of these was £1.59million paid to the NHS Pensions Agency. This will save an annual charge that would otherwise have been payable for the remaining life of the pensioner. It is estimated that these costs could be in the region of £340,000 per annum. The early retirement provision and redundancy payments are included in programme costs.

The Authority received £2million from the DH to fund the significantly increased levels of growth in prescriptions as well as general inflation. Prescription growth until recently was in the region of 3.5% p.a. However in 2001-2002 the volume of prescriptions processed rose by almost 6%. The Authority was able to cope with this increase due to the measures it put in place when dealing with the backlog of prescriptions described above. However efficiencies were still required to meet the 3.7% pay award agreed by the NHS from 1 April 2001. The uplift given for pay and price rises was 2.5% which meant that the Authority had to achieve cost savings of £750,000 to fund both the pay award and the efficiency targets set by the DH. These savings were achieved by increasing processing efficiency and reducing overtime.

Significant expenditure was incurred on two new projects which had started in 2000-2001 namely the ETP Pilot and the Drug Dictionary. Expenditure on both these projects was £1.5million during the year compared to £0.5million prior to that. This expenditure covered both staff costs and associated furniture and equipment. There were some additional software licences required which will continue to be paid annually. The expenditure shown against maintenance includes repairs that are not capitalised on the Balance Sheet, as well as minor works. The Authority owns five properties and rents ten other buildings. Owned properties are reflected in the fixed assets and depreciated in line with NHS guidance (see note 1.5) whereas rents paid on other properties are charged direct to programme costs. Due to the increased prescription volumes the Authority required additional storage space at the warehouse in Newcastle, accounting for most of the increase in rental payments

The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed by the supplier. Of total relevant bills, 95.3% of bills, representing 97.5% of value, were paid within the target. (2001-2001: 93.6% of bills, representing 96.5% by value, were paid within the 30 day target).

The Compliance Unit was required to collect penalty charges in addition to prescription charges from those that had claimed an incorrect exemption with effect from November 2000 dispensed prescriptions. Due to the backlog in processing these were not available until 2001-2002. To carry out this additional work the Unit was given additional resources. The income from penalty charges (£1.947million) was used to fund this and therefore the income is recorded within the Main Administration Account as opposed to that for the prescription charges which is accounted for in the Pharmaceutical Account. The Compliance Unit along with the Prescription Fraud Team are expected to transfer to the Counter Fraud Operational Service some time during 2002-2003 and it is expected that the penalty charge income will no longer accrue to the Authority. The Compliance Unit had direct costs of almost £1million in 2001-2002, which will also not be reflected fully within the 2002-2003 accounts.

Another significant increase in expenditure was due to the employers contribution to the NHS Pensions Scheme increasing from 5% to 7% for 2001-2002 as a result of the national actuarial adjustment exercise. This resulted in an additional £1million cost which was funded by the Department.

Capital charges fell by £404,000 from 2001-2002. This was due mainly to a smaller provision for depreciation on equipment. As equipment comes to the end of its useful life it no longer attracts a depreciation charge, which applied on this occasion to numbering machines and other IT equipment. Some of the numbering machines were replaced in 2001-2002 and there is a phased programme to replace the rest throughout 2002-2003. The mainframe computer is also due for replacement in 2002-2003. Expenditure on fixed assets was £2.5million during the year, £900,000 more than in the previous year, mainly due to refurbishing buildings and the IT network infrastructure in preparation for ETP.

From 1 October 2001 the Authority provided financial and human resources services to the NHS Modernisation Agency. The Authority was given a cash limit of almost £21million to cover expenditure by the Agency. This expenditure is not included in the Authority accounts as it is recharged back to the DH. However expenditure incurred by the Authority in providing this support has been included (£210,000) along with the contribution from the Agency towards these costs. As payment for the Agency expenditure was made by the Authority recoverable VAT was charged to the Authority's debtor account, and the Agency charged the net cost. This resulted in an increase in VAT debtors at 31st March 2002 from £0.6million to £1.4million.

The Authority's audit for both 2001-2002 and 2002-2003 was carried out by District Audit.

The Prescription Pricing Authority has adopted the following general statement of Policy on Equal Opportunities in Employment.

The Prescription Pricing Authority is committed to the development of a workplace culture which is fair and inclusive which will enable all employees and potential employees to make their special contributions for the benefit of the Authority's business activities.

As an Equal Opportunities Employer, the Authority strives to ensure that all employees and job applicants are treated fairly and consistently and are not subject to unjustifiable requirements or conditions. In addition, that no person is treated less favourably than another on grounds of sex (including sexual orientation), marital status, race, colour, ethnic or national origin, or disability. The Authority was awarded the Two Ticks Disability Symbol for good practice in the area of disability on 13 March 2001.

## **Summary**

The Accounts demonstrate that the Authority is in a satisfactory financial position. Sufficient resources have been secured to enable the processing timescales to return to normal as well as assisting in the development of a more flexible processing environment. Cash drawings were within the allocation and the resource limit for the Main Administration account was not exceeded.

The Authority agreed to produce a summary of the financial statements for publication in the Annual Report. Anyone requiring more information can receive a copy of the full accounts, free of charge, by writing to:

John Smith  
Director of Finance and Administrative Services  
Prescription Pricing Authority  
Bridge House  
152 Pilgrim Street  
Newcastle upon Tyne  
NE1 6SN

Email: [john.smith@ppa.nhs.uk](mailto:john.smith@ppa.nhs.uk)

They are also available on our web site: [ww.ppa.org.uk](http://ww.ppa.org.uk) and NHSnet site:  
[www.ppa.nhs.uk](http://www.ppa.nhs.uk)

[Signature]

***John Smith***

Director of Finance and Administrative Services

## Main Administration

### Operating Cost Statement for the year ended 31 March 2002

#### Continuing Operations

	£000	2000-01 £000
Programme costs	<b>65,933</b>	62,340
Operating income	<b>(3,808)</b>	(1,644)
<b>Net operating cost</b>	<b><u>62,125</u></b>	<u>60,696</u>
<b>Net resource outturn</b>	<b><u>62,125</u></b>	

### Statement of Recognised Gains and Losses for the year ended 31 March 2002

	£000	2000-01 £000
Unrealised surplus/(deficit) on the indexation and revaluation of fixed assets	<b>277</b>	289
<b>Recognised gains and losses for the financial year</b>	<b><u>277</u></b>	<u>289</u>

**Main Administration  
Balance Sheet as at 31 March 2002**

	<b>£000</b>	31 March 2001 £000
<b>Fixed assets:</b>		
Tangible assets	<b>13,832</b>	14,130
<b>Current assets</b>		
Stocks	<b>196</b>	208
Debtors	<b>6,023</b>	3,567
Cash at bank and in hand	<b>66</b>	8
	<b>6,285</b>	3,783
<b>Creditors: amounts falling due within one year</b>	<b>(1,505)</b>	(1,017)
<b>Net current assets/liabilities</b>	<b>4,780</b>	2,766
<b>Total assets less current liabilities</b>	<b>18,612</b>	16,896
Provisions for liabilities and charges	<b>(683)</b>	(955)
	<b>17,929</b>	15,941
<b>Taxpayers' equity</b>		
General Fund	<b>18,121</b>	16,410
Revaluation reserve	<b>(192)</b>	(469)
	<b>17,929</b>	15,941

## Cash Flow Statement for the year ended 31 March 2002

	2000-01	
	£000	£000
<b>Net cash outflow from operating activities</b>	<b>60,260</b>	56,639
<b>Capital expenditure and financial investment:</b>		
Expenditure to acquire tangible fixed assets	<b>2,507</b>	1,545
Receipts from disposal of fixed assets	<b>0</b>	0
<b>Net cash (inflow)/outflow from investing activities</b>	<b>62,767</b>	58,184
<b>Net cash (inflow)/outflow before financing</b>	<b>62,767</b>	58,184
<b>Financing</b>		
Net Parliamentary funding	<b>62,825</b>	58,159
<b>(Increase)/decrease in cash in the period</b>	<b>(58)</b>	25

Main Administration

		2001-02 £000
<b>Achievement of Operational Financial Balance</b>	Net operating cost	62,125
	Revenue Resource Limit	64,782
	Operational Financial Balance	(2,657)
<b>Reconciliation of net programme cost to net resource outturn and Revenue Resource Limit</b>	Net programme cost	62,125
	<b>Net resource outturn</b>	62,125
	<b>Revenue resource limit</b>	64,782
	<b>(Over)/underspend against limit</b>	2,657
<b>Reconciliation of gross capital Expenditure to capital resource limit</b>	Gross capital expenditure	2,507
	NBV of assets disposed	0
	Capital grants	0
	Donations	0
	<b>Net capital resource outturn</b>	2,507
	Capital resource limit	3,070
	<b>(Over)/underspend against limit</b>	563

## Main Administration

### Programme Costs to year ended 31 March 2002

	£000	£000	2000-01 £000
Authority members	42		44
Staff costs	47,060		43,622
Contract staff	611		490
		47,713	44,156
Capital: Depreciation	3,082		3,504
Impairments	0		0
Capital charges interest	1,011		993
(Profit)/loss on disposal	0		0
		4,093	4,497
Interest paid - unwinding of discount	0		0
Interest paid - other	0		0
Auditor's remuneration			
Audit Fee	171		83
Non-statutory Audit Fees	0		56
Equipment and furniture	3,803		2,884
Stationery, printing, postage and telephone	2,287		3,057
Maintenance, fuel, power and cleaning	3,484		3,626
Rent and rates	1,768		1,457
Transport	587		454
Staff training, advertising and removal expenses	653		641
Travel and subsistence	338		477
Other programme costs	1,036		952
		14,127	13,687
		65,933	62,340

## Main Administration

### Authority members' remuneration

2000-01

	<b>£000</b>	<b>£000</b>
Non-executive members' remuneration	<b>42</b>	44
	<b>Chairman</b>	<b>Chairman</b>
	(up to 31 Oct 01)	(wef 1 Nov 01)
	<b>£000</b>	<b>£000</b>
		<b>Chief Executive</b>
		<b>£000</b>
Basic salaries	<b>9</b>	<b>7</b>
Benefits	<b>0</b>	<b>0</b>
Compensation for loss of office	<b>0</b>	<b>0</b>
Performance related bonuses	<b>0</b>	<b>0</b>
Pension contributions	<b>0</b>	<b>0</b>
2001-02 Totals	<b>9</b>	<b>88</b>
2000-01 Totals		16
		83

The Chief Executive is a member of the NHS pension scheme (include any enhanced benefits). The employer's contribution to the scheme amounted to the equivalent of 7% of the Chief Executive's salary. The Chief Executive's remuneration and conditions of service are set by the Remuneration Committee in accordance with NHS Guidelines for Senior Management Pay. The benefit relates to the provision of a leased car.

The Non-Executive Chairman was appointed in November 2001 for 3 years. Prior to November she was a non-executive director of the Authority from January 2000. The previous postholder's 3 years term expired in October 2001. The table above reflects the change in Chairman.

The salary and pension entitlements of the most senior managers of the Authority were as follows:

Name (and position held)		Age	Salary	Real increase in pension	Total accrued pension at age 60 at 31.3.2002
		(Note 3)			
		years	£000	£000	£000
D G Ball	Director of IT	50	68	2	24
C Dalton	Director of Pharmaceutical Policy and Services	*	*	*	*
J Ferguson	Medical Director (Note 1)	62	50	1	10
M King	Director of Planning & Corporate Affairs	36	52	1	9
A McDonald	Director of Operations (Note 2)	40	22	2	16
N Scholte	Chief Executive	42	88	1	3
M Siswick	Director of HR & Compliance	*	55	*	*
W J Smith	Director of Finance & Administration	49	66	2	20
E Stobbart	Director of Operations (Note 2)	60	41	0	28

\* Consent to disclosure withheld

(1) Dr Ferguson left the employment of the PPA on 28 February 2002 at the age of 62.

(2) E Stobbart retired as Director of Operations on 30 November 2001 and A McDonald was appointed to the post from 1 December 2001. The above salaries and pensions relate to their respective periods as Director.

(3) All salaries include employer's pension contributions and, where applicable, benefits in kind relating to the provision of a leased car.

Pharmaceutical Services for England

**Operating Cost Statement for the year ended  
31 March 2002**

**Continuing Operations**

	<b>2001-02</b>	2000-01
	<b>£000</b>	£000
Payments to Contractors	<b>776,442</b>	761,654
Patient Charges	<b>(335,970)</b>	(326,183)
<b>Net operating cost</b>	<b><u>440,472</u></b>	<u>435,471</u>
<b>Net resource outturn</b>	<b><u>440,472</u></b>	<u>435,471</u>

**Statement of Recognised Gains and Losses for the year ended 31 March  
2002**

There were no recognised gains or losses for the year ended 31 March 2002

Pharmaceutical Services for England

**Balance Sheet as at 31 March 2002**

	<b>31 March 2002 £000</b>	31 March 2001 £000
<b>Current assets</b>		
Debtors	<b>83,772</b>	81,717
Cash at bank and in hand	<b>7</b>	0
	<hr/> <b>83,779</b> <hr/>	<hr/> 81,717 <hr/>
<b>Creditors: amounts falling due within one year</b>	<b>(130,574)</b>	(124,595)
	<hr/> <b>(46,795)</b> <hr/>	<hr/> (42,878) <hr/>
<b>Total net assets</b>		
	<hr/> <b>(46,795)</b> <hr/>	<hr/> (42,878) <hr/>
<b>Taxpayers' equity</b>		
General Fund	<b>(46,795)</b>	(42,878)
	<hr/> <b>(46,795)</b> <hr/>	<hr/> (42,878) <hr/>

## Cash Flow Statement for the year ended 31 March 2002

	2001-02	2000-01
	£000	£000
<b>Net cash outflow from operating activities</b>	<b>436,548</b>	392,545
<b>Financing</b>		
Net Parliamentary funding	436,555	392,497
<b>(Increase)/decrease in cash in the period</b>	<b>(7)</b>	48

## **Independent Auditors' Report on the Summary Financial Statements**

We have examined the summary financial statements set out on pages 25 to 35.

### **Respective Responsibilities of Members and Auditors**

The members are responsible for preparing the Annual Report. Our responsibility is to report to you our opinion on the consistency of the summary financial statements with the statutory financial statements.

### **Basis of Opinion**

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the summary financial statements' issued by the Auditing Practices Board for use in the United Kingdom.

### **Opinion**

In our opinion, the summary financial statements are consistent with the statutory financial statements of the Authority for the year ended 31 March 2002.

An unqualified opinion was issued on the full financial statements of the Authority's Administration Accounts. Our opinion on the statutory financial statements for Pharmaceutical Services was qualified because the financial statements excluded patient prescription income due to the PPA which was not received because of patients fraudulently claiming exemptions from charges and of unintentional evasion, and as such income had not been applied to the purposes intended by parliament. This is referred to by the Director of Finance and Administrative Services on page 26 of this Annual Report.

### **David Jennings, District Auditor**

District Audit, 2<sup>nd</sup> Floor, Nickalls House, Metro Centre, Gateshead NE11 9NH