

The Society

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Council opts for a dual-role Society

The Council of the Royal Pharmaceutical Society has decided that the Society should retain both its regulatory and professional roles within a reformed structure, firmly based on the public interest.

The decision was announced on 15 May at the Society's annual general meeting. At a meeting earlier that day the Council had decided that, by retaining these roles, the Society would have a head start towards becoming a world-class regulator and professional body in the modern sense. This, the Council believes, will produce the best outcome for both the public and the profession.

The decision forms part of the modernisation programme initiated by the Council in October 2001 with the aim of making the Society fit for the future.

The Society says that, in making its decision, the Council recognised that, if the Society were to relinquish its regulatory role, pharmacy would still need to be regulated. But it was unlikely that the Government would be willing to devote legislative time to setting up a new regulatory body for pharmacy. The more likely outcome would be that pharmacy would be added to the remit of the Health Professions Council and would lose its independent self-regulation and perhaps much of its professional identity. In addition, the expanded scope of modern regulation would mean that the Society would lose much of what might now be considered "professional functions" to the new regulator.

The Council discussed how the Society's remit was broader than that of any other health professional regulator. The Society's professional development role includes such activities as the Society's local network, aspects of research, support for clinical governance and guidance on good clinical practice, public health and developing the profession's role for the future.

The Council also recognised the importance of the Society's representative role, promoting the profession's contribution to health care to the public, to government and to other health professions. A modern regulator needs to be in a position to make representations whenever policy or other factors threaten the profession's ability to deliver a safe and effective quality service.

The Council made its decision after considering the outcome of its consultation earlier in the year, when the modernisation steering group published a discussion paper setting out in broad outline the current remit

and functions of the Society, the constraints on future options posed by legislation, the Charter and government policy, and potential future options and their pros and cons. Comments were invited from pharmacists and all those with an interest in the future remit and functions of the Society.

The responses showed a clear preference among pharmacists for retaining both regulatory and professional functions within a reformed Society, with 70 per cent supporting this option. Responses from groups within the Society were unanimous in also supporting this option. Responses from other pharmacy bodies showed a majority in favour of retaining both regulatory and professional functions, with the next most popular option being for the Society to retain only the functions of a modern regulator.

Responses from bodies outside pharmacy were more varied, with most of those who

Where responses expressed dissatisfaction with the Society's remit and functions, the most frequent call was for a trade union-type body for all pharmacists, to negotiate on staffing, workload and pay levels, to provide legal representation in disputes and to lobby for pharmacists' interests. The Society says that it would be impossible for it as a regulatory body to undertake these functions. But others may want to explore the possibilities.

Commenting on the consultation, the President, Marshall Davis, said that in reaching its decision, the Council was mindful that the responses had shown a clear preference among pharmacists for retaining both regulatory and professional roles within the Society. A number of respondents had seen the Society's obligation to serve the public interest and the need for greater lay involvement as positive strengths that would help safeguard and maintain public confidence in pharmacy and ensure the profession's long-term future.

In a press release about the Council's decision, the Society points out that the scope of professional regulation is changing enormously. The Kennedy report on children's heart surgery at Bristol Royal Infirmary and the Government's response, "Learning from Bristol", have put in place a broader, more integrated framework that goes far beyond disciplinary processes. This modern definition of professional regulation includes all the processes that combine to assure competence and fitness to practise. This includes functions such as those set out in the Panel.

It is evident, says the Society, that this reinterpretation of regulation encompasses much of what might previously have been considered the Society's "professional" functions. The vision of professional health regulation set out in the Kennedy report echoes the way that the Society has evolved, combining the promotion of high quality practice with dealing with the few who fail to meet acceptable standards. The main thrust of regulation is moving towards helping good pharmacists to remain good — and indeed to become better — while still managing problem pharmacists.

Functions of professional regulation

Getting on to the register

- 1 controlled entry into a profession
- 1 education
- 1 registration

Staying on the register

- 1 setting and enforcing professional standards
- 1 promoting good practice
- 1 training
- 1 continuing professional development
- 1 assessing competence
- 1 providing support for improvement
- 1 revalidation

Sanctions and, in some cases, removal from the register

- 1 dealing with poor performance and misconduct
- 1 removal from the register

expressed a preference calling for a separation of the Society's regulatory and professional functions to make the public interest focus more explicit. Some others believed that the needs of patients and the public would be best served by the Society retaining both regulatory and professional functions.

Pharmacy “living in a state of revolution”

It would not be an overstatement to say the pharmacists were living in a state of permanent revolution, the President of the Royal Pharmaceutical Society, Marshall Davis, told the Society's annual general meeting on 15 May when he presented the annual review of the Council for 2001.

The President said: “For those of us who work in health care, it seems that nothing is stable. The very framework of the NHS has undergone radical change. The public's expectation of health professions grows apace. The Government has a clear view of how it wants to secure professional accountability. Our working relationships with other professionals are evolving into something quite new.”

Highlighting some of the key issues and factors influencing the Society's work in 2001, the President said that no issue was of such long-term significance for the health professions as the need to review and reform professional regulation to meet new requirements of accountability. In October, the Council had set a budget to meet the costs of a far-reaching programme to ensure that the Society could match the best principles of modern regulation. Every other health professional regulator had engaged upon similar work. He was baffled by those who suggested that this work was somehow detrimental to the interests of the members: “Membership of the Society confers the privilege of being able to practise pharmacy. To secure the continued confidence of the public in the profession, we need to be in a position to demonstrate that members are competent and fit to practise.”

The Society had consulted on proposals to reform the profession's disciplinary machinery and to allow the introduction of procedures to require continuing professional development (CPD). An extended range of disciplinary sanctions was also proposed, including powers to impose interim directions, suspension from the register or conditional registration. Those proposals were now with the Department of Health and would form the basis of Government consultation on legislation to revise the Society's disciplinary processes.

The President then announced that the Council, having considered the responses to the discussion paper on the way forward, had now set the direction of travel for the future, with the Society retaining both regulatory and professional roles (see p739).

Commenting on the pilot work in preparation for a national CPD framework for pharmacy, the President said that he was delighted to announce that Dr Peter Wilson, until recently director of the CPPE, was to join the Society's CPD implementation team, with particular input on communication and high-level policy issues (see p747).

On the regulation of pharmacy support staff, the President said that the Society had begun the work to take forward its policy of

mandatory regulation. Issues to be considered would include which categories of support staff the policy should apply to and how regulation might work in practice.



Marshall Davis: the public's expectations of health professions grows apace

The President commented on the Society's work with the new bodies established as part of the modernisation of the NHS and with the health departments for England, Scotland and Wales. During 2001 the Society had developed standards and guidance to support pharmacists in delivering new services, had approved a strategy for its future investment in research, had initiated further debate on supervision and had reviewed its branch and regional network to help pharmacists meet future challenges locally.

In the run-up to the availability of emergency hormonal contraception as a pharmacy medicine, the Society had worked with an expert group to ensure that pharmacists were well supported with professional standards, practice guidance and training. The failure of challenges to pharmacy EHC in Parliament and the courts was a vote of confidence in the professionalism of the pharmacists in providing this valuable service.

On policy matters, the President said that in December 2001 the Council had announced its position on direct-to-consumer advertising of prescription medicines. While supporting the increased provision of balanced information to the public the Council agreed that such advertising is unlikely to be the best way of providing it. The Society had also contributed to external policy developments, notably the Audit Commission's report on medicines management in hospitals, “A spoonful of sugar”. It was now working to support the implementation of its key recommendations.

The President outlined ways in which the Society had continued to develop its working relationships with other health bodies, Government, opinion formers, members of Parliament, the media and the public.

On the Society's museum, the President said that, in taking its decision to reduce

expenditure as part of a focus on urgent new priorities, the Council was aware of the concerns but was able to agree a way forward that meant that the museum would remain formally constituted, retain registered status and continue to ensure the long-term care of the historical collections and their educational use.

Discussing science matters, the President said that, following the constitution of the Academy of Pharmaceutical Sciences as a separate legal entity, the Society and the academy would work closely on science-related matters and the academy would continue to support the development of the science content of the British Pharmaceutical Conference.

The President said that the Council had been delighted to see the continued success of the Society's publishing operation. During 2001, work was finished on the 33rd edition of Martindale — the first edition available in both print and electronic formats.

MARK KOZIOL (Birmingham) said that the Society was putting much effort into its modernisation programme and looking at the regulatory mechanisms. However, it had another important role. One of its chartered objects was to promote the interests of the members in their exercise of the profession of pharmacy. Could the members rest assured that their interests would be looked after in the modernisation programme? An important role of the Society was to represent the interests of the members.

The PRESIDENT replied that the Society had a clear mandate to represent the interests of members. What it was looking for was a sustainable profession in which members had a rewarding professional career. It represented the interests of pharmacists in terms of the public benefits that pharmacists provided for the public in the future. But it could not take a self-interested position of members in conflict with that public interest.

Asked whether there would be consultation with community pharmacists on supervision in community pharmacy, the President said that there would be discussion involving all pharmacists.

JOHN E. BALMFORD (Chipping Campden) said that Society's museum had been treated disgustingly. Expenditure on museum activity had been reduced by two-thirds, but nowhere could one see the actual figures. Even as an honorary auditor of the Society he did not know the figures.

The TREASURER said that the word “disgusting” was not fair. The Society had had to set priorities and had achieved a saving of £100,000 on the museum, which had involved staff redundancies in that department. Museum activity had been reduced slightly but it was still available for members to use and exhibits would remain in the foyer.

There being no further questions, the President moved the adoption of the annual review, which was carried.

Concerns about Society's modernisation programme

Concerns about the Royal Pharmaceutical Society's modernisation programme were the main items raised by members of the Society during the discussion forum before the annual general meeting on 15 May.

Dr STEVEN KAYNE (Glasgow) asked how the Society saw its Scottish and Welsh executives fitting into the modernisation programme.

The PRESIDENT replied that policies relating to the practice of pharmacy could be developed through the Scottish Parliament and the Welsh Assembly. However, the regulatory role was a reserved power of the Westminster Parliament, for the whole of the United Kingdom. So far as the modernisation arrangements related to the Scottish Executive and the Welsh Executive, these matters had not been discussed. They would be discussed by the modernisation group in due course. The Council had just determined the Society's role and remit so far. As part of that review, there will be consultation with members in Scotland and Wales.

The SECRETARY AND REGISTRAR said that the lack of seats on the Council for the chairmen of the Scottish and Welsh executives would have to be rectified in the modernisation programme. They were there now at the Council's invitation but not there constitutionally.

The meeting was advised that representatives from Scotland and Wales sat on the modernisation steering group. A representative from Northern Ireland also attended.

The PRESIDENT (Marshall Davis) said that strategy days had been held in Scotland and in Wales. They had been beneficial because issues specific to Scotland and Wales had emerged.

Asked whether the Society's modernisation work was likely to require changes to the Charter, the VICE-PRESIDENT (Dr Gill Hawksworth) said that that could not be determined at present. But other regulatory bodies that had amended the composition of their councils had done so through a Section 60 Order.

The SECRETARY AND REGISTRAR (Ann Lewis) said that the Charter provided for pharmacists to be on the Council, but other membership could be authorised by legislation, as was the case with the present Privy Council nominees.

ANTHONY COX (Birmingham) asked how many people had responded to the consultation on the modernisation process.

Mrs CHRISTINE GRAY (project manager for the modernisation programme) said that 106 responses were received, one being the result of *The Journal* survey, which had about 370 responses. But the response represented many more people because a number of responses came from organisations, both within pharmacy and outside.

SYDNEY SOUTHWELL (London) asked whether the Government had imposed a time scale for the health professions to comply with the new definition of regulation and put their houses in order.

The VICE-PRESIDENT said that although there was no defined time scale it would happen rapidly. The NHS and Health Care Professions Bill, which would establish a Council for the Regulation of Health Care Professionals, had almost completed its pas-



Steven Kayne: how do Scotland and Wales fit in to the modernisation programme?

sage through Parliament. That council would be the driving force to ensure that the health professions came up to scratch. The process would not be slow.

The PRESIDENT said that the Council for the Regulation of Health Care Professions would be constituted later this year when the Bill has been enacted. The Bill required the Council to report to Parliament annually, and the Society's performance would form part of that report.

The SECRETARY AND REGISTRAR said that the Society would probably also become directly accountable to Parliament, as other health care professions were.

Mr COX said that surely the Society was accountable to its membership. Was it possible to make the regulatory part accountable to Parliament and yet keep the Council accountable to the membership?

The SECRETARY AND REGISTRAR said that, in modern terms, the accountability needed to be to both. Ultimately the Council would be accountable to Parliament.

The PRESIDENT said that the Society was accountable to the membership in the sense that it was there to serve the public interest and to ensure that the membership had a robust and sustainable professional activity. It was not responsible to the membership in the sense of pursuing the members' specific interests should they be in conflict with the public interest.

Answering a question from EDWARD MALLINSON (Glasgow), the SECRETARY AND REGISTRAR said that the modernisation programme was the reason for the Society not replacing the two directors who had left its employment in 2001. The Society was reviewing the directorate structure in the light of the modernisation process. It had appointed an interim Director of Resources until the end of this year. In the

Professional Standards Directorate, Helen Darracott and Stephen Lutener were jointly acting as directors and had specific roles in their own right.

CPD

JANE NICHOLSON (Slough) said that she practised pharmacy in the pharmaceutical industry, where many pharmacists felt disenfranchised by what appeared to be proposals to introduce continuing professional development based on practice in primary and secondary care. What was the intention for industrial pharmacists and others whose work was not necessarily directly related to the patient?

The VICE-PRESIDENT said that the CPD framework and its user-friendly materials and software were generic and just as applicable to academia or industry as to community or hospital practice. There was no good reason to suppose that meeting a mandatory CPD requirement would be any harder for industrial pharmacists than for other pharmacists.

The SECRETARY AND REGISTRAR said that the Society had been talking to people in a whole range of environments to determine the sort of competencies needed and the way in which CPD could role forward within that generic framework.

The TREASURER pointed out that an industrial pharmacist served on the CPD implementation committee.

Asked when the results of the CPD pilot would be published in a peer reviewed journal, Dr ROBERT DEWDNEY (head of education) said that the Society intended to publish in peer review journals many aspects of the work of the pilot. However, the top priority was to roll out a CPD system beginning this autumn. In the next few weeks, the Society would begin to implement a communication plan so that members were well informed about what would happen next.

Although the Society had not published in peer reviewed journals, it had presented the results to a number of audiences. The main reports had been to the Council, which had rigorously examined the information and the case put forward. Along the way the Society had invited national experts to review what it was doing. They included two professors of continuing professional development.

NHS STRATEGY

BRIAN MILLER (East Metropolitan branch) asked whether the Council could offer any support to the Department of Health chief pharmacist in the problem that few strategic health authorities and regional offices of the health and social care departments had seen fit to appoint pharmacists to their organisations. There were almost no pharmacists above the level of primary care trusts within the NHS.

The PRESIDENT said that the matter had been raised with the Minister responsible for pharmacy and with Department of

Health officials. In addition, the Society and other pharmacy bodies had sent a joint letter.

SUPERVISION

ALAN ROGERS (Epsom) said that on top of coping with the modernisation agenda, practising pharmacists faced a mind-boggling information overload from documents generated by the Government, health authorities, primary care trusts and pharmacy bodies. None of this ever seemed to improve the lot of the poor front-line pharmacist who suffered constant attacks on his integrity and on his wallet. The Society's constant emphasis

on how much pharmacists had to change implied that they were not doing a good job. Allowing the modernisation and clinical governance agendas to become a bureaucratic deluge reduced pharmacists' time for interface with patients.

This brought him to the matter of supervision and personal control. He had once been given an assurance that while supervision was under review, personal control was sacrosanct. But now the truth was out.

Mrs HELEN DARRACOTT (head of professional standards) said that the Society had no pre-set agenda on supervision. It wished to see whether a framework could be

identified that would allow pharmacists the flexibility of delegating to suitably trained and competent staff.

PETER CURPHEY (member of Council) said that, as a small contractor himself, he was well aware of the pressures on the profession. There was a difference between modernising the Society and re-engineering the profession. The aim of the supervision debate was to allow pharmacists to practise as they wished within standards set by their professional body. The change to a modern regulator was an entirely different process, over which the Society had little choice. They were two important but separate streams.

Presentation of Charter gold and silver medals

The Royal Pharmaceutical Society's Charter gold medal for 2002 was presented to Professor Peter Noyce, FRPharmS, Boots professor of pharmacy practice, University of Manchester, during a ceremony before the Society's annual general meeting on 15 May. The Charter silver medal was presented to Michael Burden, FRPharmS, of Leicester.

Making the presentations, the PRESIDENT, Marshall Davis, said that the Charter medals, instituted in 1963, are awarded by the Council on the recommendation of the President. The gold medal recognises outstanding services rendered by a member to the Society, or generally, in promoting the interests of pharmacy. The silver medal recognises outstanding services rendered by a member locally or to a specific sector of the profession.

The President said that Peter Noyce had spent 12 early years of his professional career in hospital pharmacy in London. He was one of the first regional drug information specialists and in 1980 was instrumental in establishing one of the first MSc degrees in clinical pharmacy. At the same time he was involved in developing management training for senior hospital pharmacists and pharmaceutical officers, running management training courses at the NHS training centre in Harrogate.

From 1983 to 1986 he served on the Nuffield Committee of Inquiry into Pharmacy. Immediately after his term on the Nuffield committee, he was appointed deputy chief pharmacist at the Department of Health, a position he held from 1986 to 1990.

In 1991, he was appointed to the new Boots chair in pharmacy practice at the University of Manchester, where he founded the drug usage and pharmacy practice group. He had supervised or co-supervised 12 PhD students on practice topics, and in the past five years had published about 30 full academic research papers. From 1994 to 1998 he was dean of Manchester's school of pharmacy and pharmaceutical sciences, which now topped the pharmacy league tables in both research (5*) and teaching (24/24). He had built a successful practice research group, embracing multidisciplinary research teams and employing a significant number of social scientists.



The President (left) presents Professor Noyce with his Charter gold medal



Mr Burden (right) receives his Charter silver medal from the President

Professor Noyce sits on the Medicines Commission, the Society's modernisation steering group and the Department of Health medicines management advisory group. He is acting director of the Centre for Pharmacy Postgraduate Education and chairman of the Society's pharmacy education research and development reference group.

Professor NOYCE, in reply, said that he was delighted to accept the honour bestowed on him by the Society. During his career he had been fortunate in his mentors and colleagues, all of whom had touched him in some way. He also had to thank his pharmacist wife Sue and his teenage offspring Alastair and Rosie.

Presenting the silver medal, the PRESIDENT said that Mike Burden's career had been mostly in hospital pharmacy, culminating in his appointment as district pharmaceutical officer for Leicestershire from 1982 to 1993. He had trained more than 200 pre-registration trainees and while involved in hospital pharmacy in Leicester he brought together five separate pharmacy departments to form the Leicestershire Pharmacy Service. He also helped to establish the Leicestershire Prescribing Guide — now in its 17th edition.

From his student days, he had maintained a keen interest in pharmaceutical affairs and he had been active in the Society's branches since 1961. He had been secretary of the South East Metropolitan branch and had chaired the Leicestershire and Rutland branch for three separate two-year periods. He has also served as secretary and public relations officer for that branch and chairman and secretary of the Sherwood region.

At the national level, he had been a member of the Society's Council (1989-95), pharmaceutical adviser to the Health Education Authority and secretary of the United Kingdom Clinical Pharmacy Association. His record showed a commitment to his profession, said the President, "for which we are all extremely grateful".

Mr BURDEN, in reply, said that he owed thanks to many people who had influenced him and helped him enjoy his life in pharmacy. None of his achievements would have been possible, or as much fun, without his wife Vela, who was also a fellow of the Society.

Financial statements adopted by narrow margin

The Royal Pharmaceutical Society's financial statements for 2001 were adopted by a margin of one vote at the Society's annual general meeting on 15 May, following members' questions about apparent discrepancies and inadequacies in the accounts. Because they had received no prior notice of the questions, the Society's Treasurer (David Allen) and Director of Resources (Hugh Mitchell) were not in a position to give detailed responses. Comprehensive answers were promised and are presented in a two-page article by Mr Mitchell in this issue of *The Journal* (see p745).

The TREASURER said that the Society's total income in 2001 was £22m. The final year-end position was a surplus before taxation of £910,000 — a significant improvement over 2000, when the Society showed a deficit of £880,000. After taxation, this left a surplus for 2001 of £480,000.

During the course of 2001, it had become increasingly apparent that the Society was facing an even greater than planned workload to make it fit for purpose as a modern regulator. It also needed to undertake a considerable programme of refurbishment of the headquarters building to protect its relative asset value and make it a more effective working environment, meeting the requirements of health and safety and disability legislation.

The Council therefore realised that, overall, it would need to be much more rigorous about focusing resources on priority work. This meant introducing a number of measures, including stringent economies, priority budgets and a retention fee increase. Budget holders within the Society had achieved these economies and helped to produce a budget that would allow the Society to focus on priority work. Some of the decisions would not be popular, but the Society would be failing the profession if it did not make this major investment in the future.

Underlying the decision to raise the retention fee were concerns about how core activities were funded. In 2001 retention fees accounted for 24 per cent of income, with 50 per cent brought in by publishing activities. The Society had come to rely on profits from publications to support a considerable proportion of its activities. Because publishing was a risk business in a competitive market, it was unacceptable to continue to fund that level of core and statutory activities from income that could not be guaranteed.

Another key issue was the need to replenish the savings spent on the campaign to preserve resale price maintenance, to which the Society has donated £987,500.

The Treasurer said that 2001 had seen another excellent performance by the publishing operation. Sales of the 32nd edition of Martindale had exceeded expectations, despite 2001 being the final year of its publication cycle, and royalties from the sale of Martindale electronic products had grown. Advertising sales on the classified section of *The Journal* had exceeded the 2000 figure.

On capital expenditure, the Treasurer said that the major items during the year were the acquisition of the flat in Parliament View and the replacement of the Society's telephone system. In addition, the Society had begun a refurbishment programme.



David Allen: the Society is working to be as transparent as possible

In terms of directorate and Council expenditure, the Society had made savings in a number of areas. Expenditure on the Council had decreased by £60,000 compared to 2000 and a salary saving was made relating to the Director of Professional Standards position, which was vacant for part of the year.

Activities managed within the Public Affairs Directorate showed a drop in expenditure, resulting from reduced activity on scientific residential courses, a reduction in public relations activity and the first full year of efficiency savings arising from a reorganisation of the membership team. Also within that directorate, the costs of the British Pharmaceutical Conference were controlled and income increased, so that the BPC cost the Society £100,000, compared with £278,00 in 2000. The aim was to build move towards a position where it was cost-neutral or even a source of income to the Society.

Some areas of expenditure were maintained or increased. Within the policy of investing in support for devolution, both the Welsh and Scottish Departments' expenditure increased during 2001. There was increased activity by the inspectorate and Statutory Committee, and increased activity on policy development and project based activities.

Some key support services had been enhanced to help meet the Society's needs. The finance team had been reorganised to strengthen its services. The Society had also continued to develop its information technology systems during 2001

In June, the Society had acquired the entire share capital and publishing rights of Stockley Drug Interactions. Expectations for this development were high. In July, the Society had divested its interest in the Medicines Testing Laboratory to Tepnel Life Sciences. The pre-tax surplus on the sale was

£176,000. Part of the disposal proceeds were satisfied by the issue of ordinary shares in Tepnel Life Sciences, which, at the balance sheet date, were quoted at £31,000 in excess of their acquisition value.

Summarising, the Treasurer said that 2001 had been a challenging year. The Society was an immensely complex organisation operating across a wide range of activities. It was working to be as transparent as possible, but it was inevitable that members would not always appreciate all the work being done and why it was being done. But senior staff and Council members were always willing to talk to local meetings about their work and the Society's policies. Debating the financial issues through pharmacy journals was not conducive to the running of this organisation and the business of publications, which was strictly a commercial enterprise.

The Treasurer then moved the adoption of the financial statements, seconded by the Vice President, Dr Gillian Hawsworth.

ANDREW HERSOM (Hull) commented that the financial statements gave some figures for 2000 that differed markedly from the 2000 document. For example, the general fund income and expenditure account quoted the income in 2000 as £20.509m, but the financial statement for 2000 had said £20.145m. The operating surplus, £1.197m, was the same but income and expenditure were different.

The TREASURER said that he was unable to comment. They were audited figures so he had to accept them as correct. There might have been some late movement in the accounts. He would be happy to answer the query at a later date.

ASH MEHTA (Hounslow) said that the £900,000 pre-tax surplus reported in the accounts was not being translated into cash, since the cash had gone down by £2.2m from £3.2m at the end of 2000 to £1m at the end of 2001. That situation was not explained, although stocks had risen by £1m and debtors had risen by £1m as well. If the Society were to use up a further £2.2m of cash in 2002, it would be insolvent.

HUGH MITCHELL (Director of Resources) said that any organisation would have movements in its balance sheet, which was a snapshot of a particular day in the year. There were two main contributors to the movement of cash. One was the purchase of the flat in Parliament View, for which, although the leasehold was acquired in 2000, the main cash flow took place in 2001. The second item was the build-up of work in progress on the new edition of Martindale, which was reflected in the year-end results. The build-up in stocks was principally work in progress rather than stocks of anything. That would be released into the results for 2002 after the new Martindale was published. Most of the increase in debtors was part of the £2m. Mr Mitchell said that the Society had reasonably substantial reserves, most of which were used up in working capital and so on, and was not in a position where it could become insolvent. He was also rea-

sonably content that controls put in place for 2002 and onwards would mean that the Society would not go into a position of deficit in the foreseeable future.

Mr MEHTA said that, according to the financial statement, the Society followed applicable accounting standards but so far as he could see, certain standards had not been applied. For example, under the heading "Creditors: amounts falling due in more than one year" was a loan note of £750,000. That number was large enough to warrant further comment.

The TREASURER replied that the movement of the £750,000 was in relation to the purchase of Stockley.

Mr MEHTA said that financial instruments such as loan notes were covered by financial reporting standard 13, which required disclosure of the maturity profile of such financial instruments and disclosure of the interest rate payable.

Mr MITCHELL said that he would be happy to take up the point with the Society's professional advisers. So far as the loan notes were concerned, no interest was payable.

Mr MEHTA said that it should not be down to someone like himself, as a qualified accountant and a finance director of a public limited company, to attend the AGM and wheedle out the information. It was important enough for all members to have that information. Mr Mehta then went on to explain in detail why he believed that in disposing of MTL the Society had "given it away". The Treasurer was asking the meeting to approve accounts that reflected a profit making situation at MTL.

Mr MITCHELL explained that the run-up to disposal had seen a considerable amount of accelerated income, which the Society was able to take early, before the disposal. It was a short term snapshot and an unusual situation compared to the trend.

The TREASURER said that the market had been trawled for prospective buyers and Tepnel's bid had been the best. The Society had not been prepared to keep funding a declining, loss-making business that needed a lot of investment.

Answering a question, the Treasurer said that the Society's Audit Committee produced minutes that were published and received by all members of Council, but they were not in the public domain. Asked whether the honorary auditors saw the committee's minutes, the Treasurer said that, if they wished to see them, they could do so.

MARK KOZIOL (Birmingham) asked whether the honorary auditors had appropriate access to the Society's financial affairs.

The TREASURER said that the honorary auditors, on request, were given as much information as they required.

Mr KOZIOL said that he had grave concerns about the article in *The Journal* on who owned the assets of the Society (P7, 11 May, p666). He understood that its author, Robert Bulling, served on the Society's modernisation steering group. Under the circumstances, should an independent opinion not have been produced?

The SECRETARY AND REGISTRAR said that Mr Bulling worked for a reputable

firm of solicitors that specialised in charter and charity law. One reason for having a person of his ability and calibre on the modernisation group was so to gain an opinion at the time it was needed. His letter was from his position with his company.

Mr KOZIOL said that he had been asked to raise the Birmingham branch's concerns about the change in the funding of representatives to the British Pharmaceutical Conference. The branch — although a wealthy one — had decided that it could not send anyone to the 2002 conference.

ROGER PHILIPS (treasurer, Birmingham branch) said that he endorsed Mr Koziol's remarks. He added that the situation in which branches now applied and received their branch grant after the end of June was not satisfactory. The branch normally held seven meetings in a year, five of them normally in the first half, so that what looked a big surplus at the end of the year was not.

JOHN E. BALMFORD (honorary auditor) said that Mr Koziol had asked whether the honorary auditors were satisfied with the answers they got. They were not. They did not get answers to all their questions. It was getting better, but it was like chipping away at a stone. The accounts were not transparent to the auditors, who had expressed their concerns to the Treasurer.

EDWARD MALLINSON (Bothwell, Glasgow) said that the financial statement gave £987,500 as the total cost to the Society of the defence of the RPM case. What proportion of the total cost was that, and how did the expenditure square with the Jenkin judgement of 1921?

The TREASURER said the Society's costs were about 10 per cent of the total. As far as the Jenkin judgement was concerned, the Council took the view that the RPM action was in the interest of the profession as a whole, as well as in the public interest.

Mr HERSOM asked how much the Society's support for the Academy of Pharmaceutical Science was costing per year and whether it would be an on going payment or a one-off?

BEVERLEY PARKIN (Director of Public Affairs) said that the Society's contribution to the academy was generally in kind, as it supported a range of the academy's activities and its constitution with staff time. She could not put a precise figure on it.

PHILIP WALTON (Manchester) expressed amazement that the honorary auditors did not get details of everything they wanted to know to the last penny.

The TREASURER said that at their meeting with the finance team the honorary auditors had had a list of questions, which must all have been answered to their satisfaction or they would not have signed off the accounts. The Society hoped to put in place an improved process in the coming year.

BRUCE RHODES (Cheltenham) said that the meeting had raised questions to which answers had yet to be given. Was the meeting therefore able to adopt the accounts?

The PRESIDENT said that the accounts had been produced in accordance with accounting procedures and audited by a

respected firm of auditors, who had signed them without qualification. Despite some of the comments, he believed that it was proper and appropriate to consider them.

The TREASURER said that answers would be obtained to the questions raised. He was sure there was a simple explanation. There was no reason why the accounts could not be approved.

Mr MITCHELL said that the accounts and balance sheet represented a true and fair view of the Society's activities in 2001. Mr Mehta's technical question about the application of accounting standards could be dealt with. Any discrepancy in the 2000 figures did not extend to the bottom line profit and loss figure. He would investigate the discrepancy, but previous years' figures were provided only as a comparative and what the meeting should be looking at was the 2001 figures.

KIRIT PATEL (member of Council) said that in his experience a change of auditors often led to a change in the manner of reporting. The alleged error would be just a change in the way the figures were reported. He added that questioning the Society's solvency was scaremongering. If one allowed for extraordinary payments such as the RPM figure, the true value of the Society's property and the phenomenal success of its publications division, insolvency was not an issue.

PHILIP WALTON suggested that any highly technical matters that would cause disagreement should be submitted in advance so that they could be resolved before the AGM to avoid the sort of discussion that had taken place.

The PRESIDENT then put the adoption of the financial statements for 2001 to the vote. On a show of hands, the financial statements were adopted, by 36 votes in favour and 35 votes against.

BRIEFLY

Code of Ethics

Item 3 on the annual general meeting agenda, "Report of revisions to the Code of Ethics and Council Statements issued since the 2001 AGM", was not considered by the meeting because there were no changes to report.

Thanks to staff

The President thanked all members of the Society's staff for their accomplishments in responding to political and professional demands during an eventful year. He was well aware of the pressures put on them by the pace of change.

Retiring Council members

Before closing the AGM, the President expressed his thanks to the two Council members who were retiring this year, David Allen and Alan Nathan. Mr Allen had served on the Council for 18 years and Mr Nathan had served for 15 years. Both had given a great deal to the profession.

FINANCIAL STATEMENTS 2001

Is the devil really in the detail?

This year's Royal Pharmaceutical Society annual general meeting saw a lively debate on the style and content of the Society's financial statements. Some questions asked had not been notified in advance and could not be answered on the night because of their complexity or technical nature. We have asked the Director of Resources, Hugh Mitchell, to provide a considered response to these questions and to comment generally on the level of detail contained in the financial statements and how useful these are to members. He also comments on the Society's actual financial performance in 2001 and how that has been achieved

I am happy to comment on the Society's satisfactory financial performance in 2001 as well as providing some detailed answers to questions raised at the annual general meeting. These comments build upon the summary report given by the Treasurer at the AGM (p741).

FINANCIAL PERFORMANCE 2001

In the previous financial year the Society had suffered a post taxation loss of £1.316m due in part to a contribution made to the resale price maintenance campaign of £750,000. However, disregarding that contribution, there was still a deficit for the year of £566,000. Why was this? The answer mainly lies in the fact that the Society's programme of work has been necessarily increasing at a disproportionate rate to the income generated to fund it. The year 2001 would also have been a difficult year and a challenging budget had been set. Tight controls were put in place on expenditure, some established staff posts were left unfilled or delayed and some of the programmes of work were delayed or deferred.

The Council and staff responded well to these initiatives and, by the end of 2001, the costs of the professional activities of the Society were controlled within budget. The total financial performance was further assisted by an improved profit contribution from the Society's publishing activities whose total revenue rose to £10.665m and the profit contribution towards the Society's total programme rose to £3.426m (previous year £2.914m).

A pre-tax surplus of £910,000 was recorded and, after providing for estimated corporation tax, the net surplus was £480,000.

Turning to the balance sheet, the net assets of the Society rose by £480,000 as a result of the retained surplus for the year being transferred to the accumulated fund (reserves). Following the heavy drain upon reserves of the previous year, this has to be regarded as a most satisfactory situation and in line with a stated Council objective of replenishing, over a three-year period, the reserves consumed by the RPM campaign.

CONTENT OF FINANCIAL STATEMENTS

It is often said that the Society's financial statements should be more transparent and

that they are too complicated for non-finance people to understand. Such a view is perfectly understandable but these statements are published documents that need to conform to standards laid down by the Accounting Standards Board. It is also said that more detail should be provided but I should point out that this is not normal within the framework of published accounts.

There is no reason for any member of the Society to feel that information is hidden or secret. The quality of the "Annual review" is good, taken with the "Report of the Council and financial statements", which is also of a good standard and contains adequate disclosures. There is a lot of information available. It is a question of the level of detail of reporting that is sensible and efficient. Any suggestions for improvement would be welcome, but all information gathering and reporting comes at a cost.

The Society has a substantial investment in the areas of financial audit, system review and governance appraisal (see note below). I believe that this spend is justified and helpful. Knowing that these cross-checks are in place should give comfort to the membership and confidence that the stewardship of financial and other resources is sound. It was certainly most disturbing to hear individuals at the AGM questioning the financial stability of the Society and indicating that somehow there was a comparison to be drawn with the Enron scandal. This kind of ill-informed comment is wide of the mark, as even a cursory glance at the latest balance sheet will show.

AUDIT PROCEDURES

The Society has three levels of independent financial and procedural audit at a budgeted cost of around £60,000 per annum. These are as follows:

Hugh Mitchell is a financial director, general manager and business performance specialist with experience in the pharmaceutical industry and in publishing. He joined the Society in mid-2001 as Director of Resources with a brief of developing better financial controls, improving the provision of management information, and reorganising the finance and resources functions, the use of properties and associated services

- 1 An internal audit function is carried out by Baker Tilly, a professional firm well respected in this area. They concentrate upon effective control procedures, risk analysis, governance issues and effective management.
- 1 The Society's external auditors and taxation advisers, appointed for the first time in 2001, are Howarth Clark Whitehill. They were appointed on a competitive tender basis and selected also on relevant experience and capabilities in the "not for profit" and charity sector. HCW made a comprehensive check of the Society's accounting records and also audited and advised on the content of the financial report and statements. I have been impressed with their comprehensive and diligent approach and the quality of their advice. They are in or around the top 10 firms by size in the UK and thus have the resources to tackle an audit of this size.
- 1 The honorary auditors are elected to the role of examining the financial statements and have the ability to ask questions on any part of the Society's financial affairs. They participate in a formal meeting with the President, Treasurer, Secretary and Registrar, Director of Resources and Head of Financial Accounting, at which all outstanding questions are answered before the formal approval and signing of the financial statements.

SPECIFIC QUESTIONS

Although several questions were raised at the discussion forum and the AGM and answered satisfactorily, the financial report section and Treasurer's speech was dominated by three issues that could not be dealt with fully at the meeting. These questions were raised without prior notification by Ash Mehta (chairman of the Society's Hounslow branch), who said that he is a qualified accountant with experience at a high level in this field. I would like now to respond to these questions and will take them in the order in which they were raised.

Please explain how the price to sell the Medicines Testing Laboratory to Tepnel Life Sciences PLC was calculated and indicate what due diligence was carried out on

Tepnel? Also explain the price that was used to calculate the number of shares that the Society received in Tepnel Life Sciences as part of the deal

The Medicines Testing Laboratory began its life in 1972 as a service to the forerunner of the Medicines Control Agency. The facility was located at 34 York Place, Edinburgh. The purpose was to have a Government laboratory that would carry out testing of all the samples collected by the Department of Health for compliance and investigation reasons. The operation, as a service to the Department, was in essence a cost recovery exercise with the costs of running the laboratory being underwritten by the Department.

The arrangement continued on the above basis until 1994 when, in line with Government policy on competitive tendering, the exclusive use of the MTL by the MCA was withdrawn and, on a tender basis, the contract of about £1m in value was shared among a number of providers. The MTL remained the official designated laboratory but the value of the contract was reduced to about £600,000. At the same time, the MTL was released from working exclusively for the MCA and was able to look for and take on commercial contracts.

By 1998–99, the turnover at just below £2m had grown to its maximum potential given the size, location and condition of the premises. To progress the business further and make it profitable, it would have been necessary to arrange a move to a modern science park type of site and to invest in new equipment. After two independent studies and reports, the Council was presented in mid 2000 with a number of options, namely:

- 1 To retain the business as a commercial venture and invest around £4m over three years, moving to modern premises and growing the business profitably.
- 1 Given that a loss was likely in 2000 and major contracts would end in 2001, to close the business and incur run-down and closure costs of around £2m.
- 1 To seek a co-investor/synergistic partner to take on the lion's share of the investment and leave the Society as a shareholder.
- 1 To dispose of the business completely, selling the assets, and thus remove any future risk to members.

Given that this business was not profitable (operating loss in year 2000 was £104,000), was about to lose some contracts and was a drain on management time and resources, the Council took the prudent and sensible view that a divestment yielding some funds, removing risk to the Society and protect as many of the staff jobs as possible was the appropriate option. The main challenge was to find a buyer who would be able and willing to develop the business. Eventually, after negotiations with a number of interested parties and due diligence, Tepnel Life Sciences offered the best deal that would meet the above criteria.

It offered a total price of £550,000 with 50 per cent to be paid in cash soon after the date of transfer and the remainder to be satisfied by shares in Tepnel Life Sciences at a price determined by an average of the quoted stock market price for the ordinary shares over the five business days prior to the completion date of the deal.

Since MTL's fixed assets were valued on the balance sheet at less than £200,000 (value at transfer date £189,000), and Tepnel had agreed to take on all the MTL staff, the Council considered that this offer was suitable and the business was transferred on 17 July 2001.

On the question of due diligence on Tepnel, an opinion was sought from the Society's investment advisors and this was taken into account. It was recognised that Tepnel was a young, research based company, and that the shares offered could go down as well as up. However, given that the deal offered would in cash terms be greater than the written-down value of the assets, the Council agreed that it would be acceptable to take 50 per cent of the price in Tepnel shares. The Tepnel shares had to be held for at least two years before sale of any or all of them will be allowed.

Why is there a difference in the year 2000 column in the income and expenditure account compared to the figures published last year?

The Society each year makes a gift aid payment to the Educational Fund, a registered charity. Subsequently this fund grants an amount back to the Society to carry out educational programs on its behalf. In the 2001 financial statements, these entries are shown in a different way from 2000. It is standard practice, for comparative purposes, to show the previous year figures in the same way. There was no alteration to the operating deficit reported in 2000.

The Financial Statements show that the Society has granted loan notes of £750,000 last year. What was the purpose of these and what is the rate of interest? Also, why has a disclosure not been made in line with FRS 13 [Financial Reporting Standard 13]?

PURPOSE OF LOAN NOTES

In 2001, the Society acquired Dr Ivan Stockley's Drug Interactions, a valuable addition to the portfolio of the Pharmaceutical Press. This acquisition, which is expected to show a significant profit contribution over the medium and long term, had a total cost of £1.082m. Dr Stockley received an initial payment of £332,000 and agreed to take the balance of the purchase price over a period of up to 10 years. This was deemed to be a suitable way to finance this valuable acquisition as, in cash flow terms, the payments to Dr Stockley can be funded out of the income generated by this reference work, including future electronic versions. Thus Dr Stockley was granted loan notes covering the balance. The loan notes carry a zero rate of interest.

FINANCIAL REPORTING STANDARD 13

Accounting standards are set by the Accounting Standards Board and lay down standards to be followed for financial reporting statements. Mr Mehta stated categorically that FRS 13 should have been followed in reporting the loan notes granted to Dr Stockley. So first we must define the scope of FRS 13. There follows an abbreviated description:

- Scope** "Derivatives and other financial instruments"
- Purpose** "To improve the disclosures provided in respect of financial instruments to assist with the identification and management of risk to the entity in the way that these instruments are used"
- Application** "FRS 13 applies to all entities, other than insurance companies and groups, that have one or more of their capital instruments listed or publicly traded on a stock exchange or market and all banks and similar institutions"
- Relevance** Given that these are private loan notes granted to Dr Stockley, not traded in any way, FRS 13 clearly has no relevance to the Society's financial statements for 2001.

SUMMARY AND CONCLUSIONS

The Society's annual general meeting, and particularly the part devoted to the financials, turned out to be a most interesting experience! Even though a much-improved financial performance was reported and the balance sheet was strengthened, the importance and significance of this fact was diminished on the night by the raising of complex financial questions that required a detailed and accurate response. This tactic unfortunately led to doubt being cast upon the financial reports which, in reality, were positive, fully audited and well presented.

Financial matters are indeed complex, and individuals without financial training can, understandably, find it difficult to follow all of the detail of financial reports. However, it is my feeling that for future AGMs, it will be beneficial if the meeting only accepts questions that have been prenotified to ensure that an appropriate and informed answer can be given and that the members present are not misled by inaccurate and rash statements. I would, of course, support the right of any member to ask appropriate questions on the Society's affairs at all times and to expect to receive accurate and well informed answers. Prenotified questions would undoubtedly ensure a better quality of response and lead to better order and more being achieved at the AGM.

NOTE: Any member can receive a copy of the 2001 Financial Statements by contacting Membership Services, Royal Pharmaceutical Society, 1 Lambeth High Street, London SE1 7JN