Monitor

Annual report and accounts 2011/12

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CORRECTION

Correction made to page 23 – the entry for Derby Hospitals NHS Foundation Trust.

Paragraph 1- the first part of the second sentence should read “This was triggered by a **planned** financial risk rating of 2 at quarter 1 2011/12 , “

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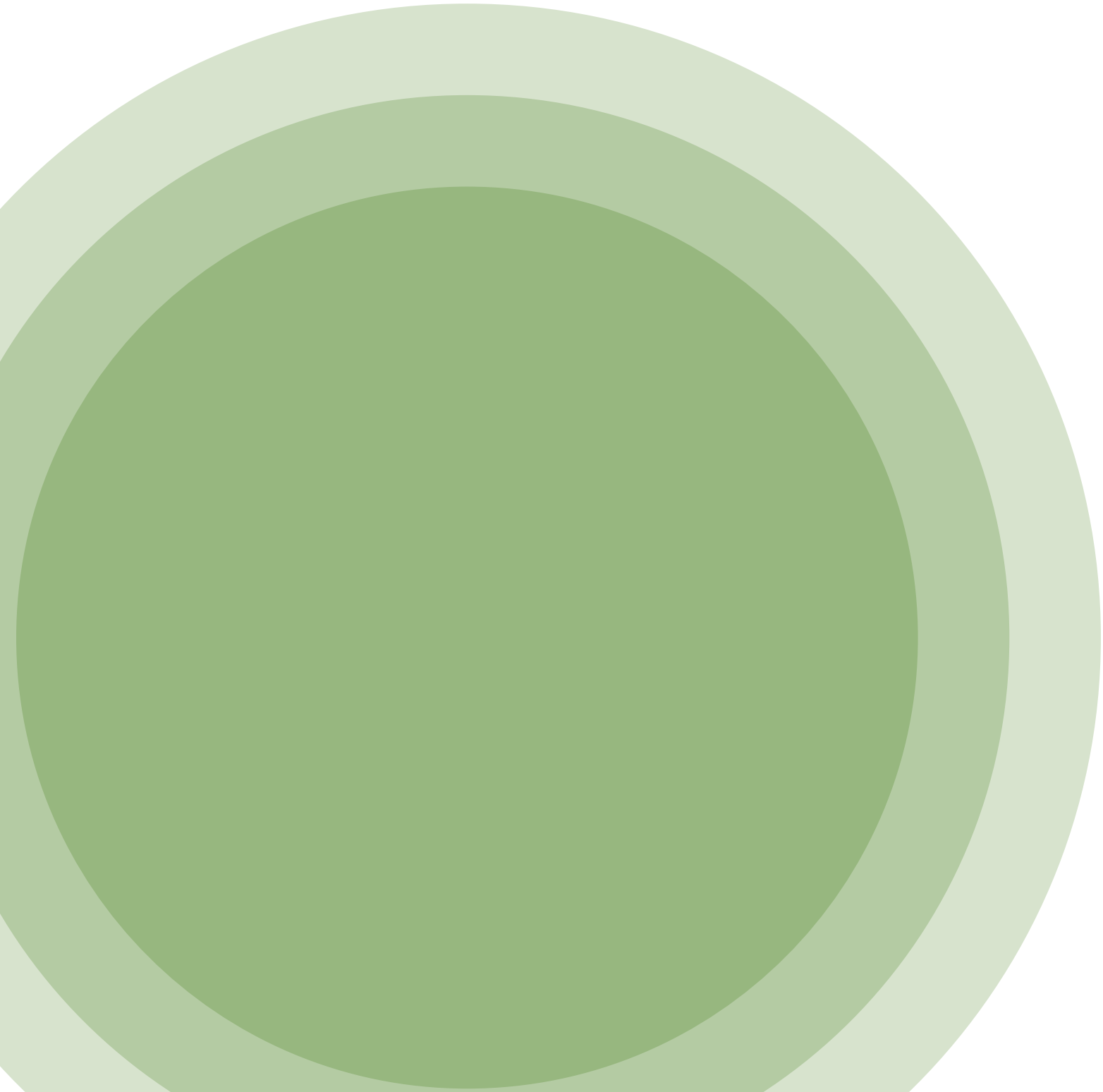
Monitor

Independent Regulator
of NHS Foundation Trusts

Annual report and accounts 2011/12



Monitor – Independent Regulator of NHS Foundation Trusts

Annual report and accounts

1 April 2011 – 31 March 2012

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Monitor

4 Matthew Parker Street, London SW1H 9NP

Telephone: 020 7340 2400

Email: enquiries@monitor-nhsft.gov.uk

Website: www.monitor-nhsft.gov.uk

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Our vision, mission and strategy in our role as the foundation trust regulator

Our vision - what is our aspiration for the future?

An **affordable, devolved health care system** in which patients and service users receive excellent care and taxpayers achieve value for money through autonomous, well led, financially robust providers responding to commissioners' requirements and patients' and service users' choices.

Our mission - what is Monitor's role?

To provide a **regulatory framework which ensures that NHS foundation trusts are well-led and financially robust** so that they are able to deliver excellent care and value for money.

We have five strategy areas to help us deliver our mission:

1. Operate a **proportionate, risk-based regulatory regime** which ensures that NHS foundation trusts are well governed and financially robust and that, where needed, interventions are timely and effective to prevent and remedy significant breaches of their terms of authorisation;

2. Operate a **rigorous assessment process** and support the development of applicants to generate NHS foundation trusts which are legally constituted, financially robust and well governed;

3. Promote the **development of well led NHS foundation trusts** which are capable of delivering excellent care and value for money that responds to commissioners' requirements and patients' and service users' choices;

4. Work with partners to contribute to and influence the **development of an affordable, devolved health care system** with a coherent regulatory regime and effective incentives for providers to deliver excellent care for patients and service users and value for money for taxpayers; and

5. Continue to improve as a **high performing organisation** which attracts, develops and retains talented people; operates efficiently; remains legally compliant and meets high professional standards.

Contents

Chair's foreword

Welcome to Monitor's 2011/12 annual report and accounts which provides an overview of progress in each of our five strategy areas alongside our accounts for the financial year. In addition this year we include a section on the work we have done as we prepare to take on our new functions as sector regulator.

Following the Government's listening exercise and the completion of the parliamentary process, the Health and Social Care Act 2012 received Royal Assent in March 2012. This was an important milestone for Monitor as we have worked hard over the past two years to understand what the changes mean for our role and to prepare for our new functions. Over recent months we have put particular focus on preparing to deliver our core duty to protect and promote the interests of patients and service users.

Alongside planning for the new elements of our enhanced role, we have remained focused on our work as the NHS foundation trust regulator which will now continue.

The anticipated increase in the foundation trust pipeline has not yet materialised as many of the remaining NHS trusts have more complex issues to address and are, quite rightly, taking time to do this. So that we are prepared for when these trusts are referred to us, we have carried out a review of our assessment process to ensure that it is as robust and efficient as possible. We are implementing changes following this review as well as the independent 'lessons learned' exercise we commissioned following the issues at University Hospitals of Morecambe Bay NHS Foundation Trust.

We have seen a significant increase in our compliance workload this year as more trusts are authorised. The foundation trust sector, and the NHS as a whole, is facing the challenge of improving quality and efficiency at the same time as addressing increased financial pressures. Consequently, we have continued to emphasise the importance of trusts focusing on risk management. We have also adapted our compliance approach based on lessons learned from a number of trusts that have got into difficulty, including Peterborough and Stamford Hospitals NHS Foundation Trust.

Working closely with partners remains a priority for Monitor and our positive relationship with the Care Quality Commission has been further strengthened this year with an updated Memorandum of Understanding which reflects the transparent and open nature of our relationship and our continued collaborative approach. We are also working closely with the CQC on preparing for the joint licensing and registration process which we will both be responsible for under the Act.

Our new responsibilities with regard to pricing and setting the tariff also mean that we will need to work particularly closely with the NHS Commissioning Board as it establishes itself. Similarly engaging with key stakeholders on planning our new functions has been an important part of our transition work this year and the feedback we've received has helped to shape our thinking about our new role.

In June 2011 Monitor gave evidence at the Public Inquiry into the role of the commissioning, supervisory and regulatory bodies in the monitoring of Mid Staffordshire NHS Foundation Trust. Mindful of the unacceptable treatment patients received at the trust during the period being covered by the Inquiry, the Monitor team and witnesses were keen to ensure we provided a comprehensive and transparent account of Monitor's role in the regulation of the trust. We have already acted to make changes to our processes and we will carefully consider the Inquiry's recommendations once they are published in October 2012 to see if we need to take any further action.

One change we have already made is to introduce the *Quality Governance Framework* into our assessment process in 2010 and subsequently into our *Compliance Framework*. The Framework tests the robustness of quality governance within trusts and is an important tool for us in terms of assessment and compliance, as well as being a useful way for trusts to understand the quality of care their organisation provides.

I have remained in post as Monitor's Interim Chief Executive this year. Following the Government's listening exercise and the subsequent changes to the Bill, the Board decided to delay recruitment of a permanent Chief Executive until we had more clarity about our future role. We are currently developing the future organisation which will be needed to deliver our new role and functions.

As we look forward to taking on our new role, we are committed to embracing our new core duty to put the interests of patients and service users at the heart of everything we do. As part of this duty, the Secretary of State for Health has asked Monitor to carry out a fair playing field review, which aims to identify barriers to a fair playing field, and possible solutions which would protect and promote the interests of patients. I welcome the opportunity to undertake this important work which has the aim of improving services to patients at its heart and look forward to gathering a range of views from providers, commissioners, patients and experts.

A focus on patients and on understanding what people want from their health care providers is key and I have no doubt that Monitor will continue to work as a robust and effective regulator on their behalf. To that end, we are currently considering our future vision, mission and values and this work will continue over the next few months as we develop Monitor's first corporate plan in our role as sector regulator.

This is an exciting time for the organisation and I'm proud to be leading Monitor into the future, helping to shape the new NHS landscape so that it can deliver the best possible outcomes for patients.

Dr David Bennett

Chair and Interim Chief Executive

3 July 2012

Overview of Monitor and NHS foundation trusts

Monitor is the independent regulator of NHS foundation trusts. Established in 2004[1], we authorise and then regulate NHS foundation trusts, ensuring they are legally constituted, financially robust, well-led in terms of both quality and finance, and locally accountable. It is our role to make sure NHS foundation trust boards operate effectively so that trusts are well run on behalf of patients and taxpayers. When problems occur, we seek to identify them early so that robust plans can be put in place to resolve them before they become major concerns.

We have specific statutory functions and discretion over their delivery. Our primary responsibilities are:

- assessing applications for NHS foundation trust status and authorising successful applicants;
- designing and operating the regulatory regime to ensure that NHS foundation trusts are financially robust, well governed and locally accountable;
- taking action if there is evidence that an NHS foundation trust is in significant breach of the conditions Monitor sets for the way it operates;
- setting the reporting requirements for NHS foundation trusts;
- reporting on the performance of the foundation trust sector and providing details of regulatory action we have taken;
- taking and enforcing decisions on matters concerning the *Principles and Rules for Co-operation and Competition* within the NHS foundation trust sector;
- considering the de-authorisation of an NHS foundation trust which is seriously failing to comply with its terms of authorisation or any requirements imposed on it under any enactment;
- supporting the NHS foundation trust sector to operate effectively, efficiently and economically; and
- exercising our own functions effectively, efficiently and economically.

NHS foundation trusts are part of the NHS. They have greater freedom than NHS trusts to run their own affairs and are not subject to central Government control. Instead, they can respond to the needs of their local communities through their members and governors, using their freedoms to decide how best to deliver the kind of services which their patients and service users want. These freedoms include:

- keeping any surplus earned, or the proceeds from the sale of assets or land, to invest in improving care for patients and service users;
- the ability to borrow to fund investments up to a limit set under Monitor's *Prudential Borrowing Code*; and
- developing incentives for staff to encourage innovation and improvement outside nationally agreed contracts.

[1] Monitor was established under the Health and Social Care (Community Health and Standards) Act 2003. The provisions of this Act that relate to Monitor and NHS foundation trusts have now been consolidated into the National Health Service (NHS) Act 2006, and further amended under the Health and Social Care Act 2012.

With these freedoms come important responsibilities. NHS foundation trusts are accountable for their own success or failure to:

- their local communities, through their members and governors;
- their commissioners, through legally binding contracts to provide agreed levels of care which reflect the needs of their local communities;
- Parliament, through the legal requirement to publish their annual accounts to Parliament;
- the Care Quality Commission (CQC)[2], through the legal requirement to register and meet the associated standards for the quality of care provided; and
- Monitor, as the Independent Regulator of NHS Foundation Trusts.

In March 2012, the Government's Health and Social Care Bill received Royal Assent to become the Health and Social Care Act 2012 ('the Act'). The vision within this Act is of a devolved system of health care where there is more choice and control for patients, an increased focus on clinical outcomes and greater empowerment for health professionals.

The Act sets out a new role for Monitor as the sector regulator for health care. Our core duty will be to protect and promote the interests of patients and service users and ensure that patients are at the heart of everything we do.

[2] CQC is the quality regulator of health and social care in England. It registers providers of care services if they meet essential standards of quality and safety and monitors them to make sure they continue to meet these standards.

Monitor's focus in 2011/12

Monitor's focus in 2011/12 has been on the external environment, as we set out in our 2011/12 Business Plan. The amount of work we have done in order to transition to our role as sector regulator has been considerable and our ongoing work as foundation trust regulator has had its own external pressures in the form of increased demand and financial constraints.

Another major focus for Monitor this year was the Public Inquiry into the role of the commissioning, supervisory and regulatory bodies in the monitoring of Mid Staffordshire NHS Foundation Trust. Monitor was designated a Core Participant and the senior management team spent a significant amount of time preparing and giving evidence to the Inquiry. We will consider carefully the implications of the Inquiry's findings in light of the changing sector on publication, currently expected to be in October 2012.

Underpinning all of this has been partnership working. Nationally, we work in partnership with a number of stakeholders and this number has increased over the year as we have started to think about our new role and the new landscape created by the Act. Of particular significance has been our continued close working with the CQC.

Transition programme

The Act sets out significant changes to the NHS in order to focus on patient outcomes, meet increasing demand and ensure the NHS remains financially sustainable. The legislation means that Monitor will become the sector regulator for health care in England.

Monitor's core duty will be to protect and promote patients' interests. We will continue to assess NHS trusts for foundation trust status and regulate providers of NHS-funded services through a licence.

The Act sets out Monitor's new functions, which are:

- licensing providers of NHS-funded care;
- regulating prices for NHS-funded care;
- enabling integrated care;
- preventing unfair competition; and
- ensuring the continuity of services.

These functions are described in further detail below.

In August 2011, we agreed a budget with the Department of Health and set up a Transition Committee to provide assurance around the policy and organisational design work undertaken, and a Controls Committee to ensure spending controls were in place. You can read more about these committees in our annual governance statement on page 69.

We established a Transition Policy team to help develop the policy, legislative and regulatory framework to perform our new functions and this included engaging with new and existing stakeholders to shape our proposals.

We also established a Build team to ensure that we designed and set up an effective and efficient organisation capable of delivering our new functions.

Stakeholder engagement
As the Act sets out significant new functions for Monitor, we prioritised engagement to ensure that we started to gather the views of stakeholders to help us shape our policy development.

This engagement work has been key to understanding the views of a range of stakeholders on our new functions and has helped shape our thinking considerably. We held a series of roundtables with patient representative groups and independent providers, and David Bennett has continued to meet on a monthly basis with Chairs and Chief Executives of foundation trusts. Members of Monitor's senior management team have given presentations around the country at events and conferences and we have also conducted a number of briefings for MPs and peers in Westminster. In order to ensure that we reach as wide an audience as possible, we set up a new section of our website dedicated to information relevant to our new role.

Licensing
All organisations wishing to provide NHS-funded services will need to be licensed by Monitor as well as being registered with the Care Quality Commission (CQC), unless exempted from the requirement to hold a licence by the Secretary of State. The date from which this requirement will apply will be set by the Secretary of State. We are currently planning on the basis that we will start to introduce a licence for providers of NHS-funded care during 2013. The licence will contain conditions with which licence holders will be required to comply in order to help ensure that high standards of quality, financial performance and governance are maintained and improved upon within the health care sector.

We have done a significant amount of work during 2011/12 on developing the provider licence. We carried out research to understand what works in other regulated industries, whilst bearing in mind the specific characteristics of the health care sector, and what could be considered best licensing practice.

There will be a joint process with the CQC for providers applying for a Monitor licence and CQC registration. We have therefore continued to work closely with the CQC to design a streamlined process, minimise bureaucracy and ensure proportionate regulation and clarity of our respective regulatory roles.

Licensing engagement
We have published a series of engagement documents which set out our early thinking on licensing, including the proposed licence conditions and application criteria. We also met a wide range of stakeholders to hear views on how our licensing regime should be developed.

In May 2012, we published a summary of the feedback received from stakeholders on our proposed licensing regime. We will use the feedback to develop and improve the proposals during the coming months. We are planning a statutory consultation later this year, during which stakeholders will be given the opportunity to provide further comments on the amended proposals.

Regulating pricing
From 2014/15, pricing for NHS services will be the joint responsibility of the NHS Commissioning Board (NCB) and Monitor. While the primary responsibility for developing the products or services for pricing will lie with the NCB, these would have to be agreed with Monitor. We will be responsible for collecting data from providers, in part via the licence outlined above, and designing a pricing methodology which will include setting the efficiency requirements for the health care sector. We will then set prices, agree them with the NCB and publish them in the National Tariff.

We carried out a significant amount of work around our new role in pricing during 2011/12. Our starting point was to commission an in-depth, independent and extensive report into the strengths and weaknesses of the current reimbursement system in the NHS in accordance with our established evidence-based approach. The evaluation process used empirical data and expert input from a number of sources including NHS stakeholders, leading academics and pricing specialists to form an evidence base upon which, with the NCB, we may develop our reimbursement proposals.

One of the key issues that emerged from the report was the importance of good quality information on costs. Improving the quality of this information will help us to use pricing to drive improvements in quality, remove barriers to integrated care and create a more level playing field for providers.

In April 2012, we published for discussion *A methodology for approving local modifications to the national tariff.* This report recommends that local modifications would only be approved if certain conditions were met including the provider demonstrating that alternative options had been tested and shown to be inappropriate.

Enabling integrated care and preventing anti-competitive behaviour
Following recommendations in the Future Forum's report on the importance of integrated care, the Act sets out an explicit focus on this key area. Monitor has a duty to consider how we can facilitate integrated care and support the delivery of integrated services for patients where this would improve quality of care or improve efficiency.

In 2011, we commissioned a report (available on our website) which sets out three main barriers to integration: culture; information; and reimbursement. It is these barriers that Monitor will try to reduce, working alongside commissioners and providers.

We will also be able to act when anti-competitive behaviour by providers or commissioners is against the interests of patients.

We have embarked on a joint project with the NCB in order to develop a framework to guide our thinking in the management of choice and competition in the NHS.

Continuity of services
For some time it has been recognised that the arrangements to deal with failure of NHS health care providers have not been satisfactory. The Act sets out a clearer and more transparent mechanism for managing provider failure which protects services needed by patients, without propping up failing management teams. This will ensure that patients continue to have access to essential services in the event that a provider fails.

Although primary responsibility for ensuring continuity of services will lie with the NCB and local commissioners, Monitor will also play a role in ensuring continued access to key services. The Act gives Monitor a broad set of intervention powers, in line with other regulated sectors, to ensure the continuity of designated health care services. This includes powers in exceptional circumstances to enable Monitor to direct a provider to take specific actions in order to prevent failure.

We have worked on the development of our continuity of services licence conditions and conducted comprehensive stakeholder engagement throughout 2011/12. We are taking a risk-based regulatory approach to protecting vital services which will allow us to focus our attention on those licensees most likely to run into difficulty. Our licence conditions will create a layer of protection, or a regulatory ring-fence, around some services in order to protect patients and to incentivise providers to manage their financial affairs effectively.

How Monitor will be configured
Alongside the policy work outlined above, we have also been working on a Build programme that aims to ensure we are set up to deliver our new functions as effectively as possible and that we provide value for public money.

We have worked with independent advisers to develop the detailed design of our new functions. The initial stages looked at a high level structure including the structure of the Board, leadership roles and the integration of the Co-operation and Competition Panel (CCP), which will become part of Monitor but retain its distinct identity.

We held workshops so that the senior management and wider leadership teams could input into initial plans and options, and have conducted research into other regulators and how they are structured. We will look to structure the organisation around its four key functions going forward – assessment, licensing operations, pricing and policy, and competition. These four functions will be supported by a series of corporate services, e.g. legal, communications, etc. Our work on developing a target operating model will continue during 2012/13.

People and change
The people and organisation workstream is responsible for the detailed design of the new target operating model; defining the staff required, recruiting them, and inducting them into Monitor. The team has also been designing processes for the transition of existing staff to the expanded organisation and reviewing all people policies to ensure they are fit for purpose. This is being done in collaboration with the Human Resources team.

Our change workstream is working to ensure engagement of staff throughout transition and helping to coordinate the delivery of the programme from a staff perspective.

Information management and technology
The information management and technology workstream is focused on ensuring that Monitor has an appropriate strategy in place for the future and that there are adequate systems in place to support our new functions.

Communications and engagement
We have been building our plans for communicating and engaging with new and existing stakeholders, and have put the plans into practice with a significant engagement programme on our proposed licence for providers (see page 8).

Process
Following the work on the target operating model, we have started developing our approach to process management and how we will design and implement the processes required for our new functions.

Estates
We set up an interim office for the transition team in Wellington House, Waterloo, in September 2011 to provide temporary office accommodation until Monitor's long-term accommodation is ready for occupation. We are working with the Department of Health to secure suitable future permanent accommodation, with a move likely in 2013.

Mid Staffordshire NHS Foundation Trust Public Inquiry

In March 2008, the then Healthcare Commission started an investigation into high mortality rates in patients admitted as emergencies to the trust since April 2005, and unacceptable failings in care. We commissioned our internal auditors to conduct a lessons learned exercise and Monitor's Board accepted all 14 recommendations that were made in the subsequent report.

In 2010, Secretary of State for Health, Andrew Lansley announced a Public Inquiry into the role of the commissioning, supervisory and regulatory bodies in the monitoring of Mid Staffordshire NHS Foundation Trust. The Inquiry was established under the Inquiries Act 2005 and is chaired by Robert Francis QC.

Monitor is a Core Participant in the Inquiry and a significant amount of senior management time was spent gathering evidence and drafting submissions. In May and June 2011 six current and former employees of Monitor gave witness evidence to the Inquiry over a period of two weeks.

In October 2011, the Inquiry held a series of seminars in which Monitor participated to explore the "forward-looking" part of its terms of reference. The seminars enabled a broader discussion on some key themes raised in the evidence submitted to the Inquiry.

The Inquiry concluded in December 2011 and it is the Chairman's current intention to finalise his report and deliver it to the Secretary of State during the course of October 2012.

Our work with the Care Quality Commission

Our close working relationship with the CQC has continued this year and remains essential to enhance our understanding of foundation trusts' performance on quality.

We are in contact on at least a weekly basis with the CQC to discuss urgent issues of concern relating to trusts' compliance with their terms of authorisation. This year, in particular, we have worked with the CQC on the timing of the annual reviews they

undertake in order to ensure these are completed before we make our decision about a trust's authorisation. This ensures we have the most up-to-date picture of a trust's quality position.

Our work with the CQC and the existence of two regulators, one focused on quality issues and one focused on finance and governance, was the subject of interest when Monitor gave evidence to the Health Select Committee in June 2011. The Committee's report emphasised the importance of the two regulators clearly defining roles and functions as well as the need for intrinsic partnership working. Prior to the Select Committee hearings, we updated our Memorandum of Understanding with the CQC to set out in more detail how we work together and ensure joined up regulation.

We have set up a joint steering group in order to design a streamlined process for those providers applying for a licence and CQC registration, to ensure clarity of our respective roles. We will continue to work closely with the CQC to ensure a coordinated approach which delivers real benefits for patients.

A review of 2011/12

Operating a rigorous assessment process

Monitor continues to assess NHS trusts for foundation trust status in a robust way, ensuring they are legally constituted, financially sustainable, effectively governed and locally representative. These are essential requirements for NHS foundation trusts to be able to operate with sufficient freedoms, to deliver national health priorities and to respond to local needs.

Overview of 2011/12

- In 2011/12, we authorised seven trusts, deferred one trust and postponed one trust. Three NHS trusts withdrew their applications following deferrals or postponements in 2010/11 and 2011/12, and two trusts started the assessment process in 2011/12; one was authorised on 1 April 2012 and one is yet to complete.
- The assessment process has taken an average of 3-4 months which is in line with the time taken in 2010/11.
- During 2011/12, five trusts were referred to us by the Department of Health which is more than 50% fewer than were referred to us in 2010/11. This is because the remaining unauthorised trusts have more complex problems so are taking longer to get through the SHA process that takes place before the Secretary of State approves a trust's referral to Monitor. In addition, the challenging financial environment and the time taken to develop robust efficiency plans continue to affect trusts' ability to reach Monitor's assessment stage.

	2009/10	**2010/11**	**2011/12**
Referred	7	11	5
Assessed	20	14	10
Authorised	14	7	7
Deferred	1	1	1
Postponed	4	6	1
Withdrew	1	0	3
Rejected	0	0	0

Trends in foundation trust assessment

During 2011/12, a number of trusts that started our assessment process found they needed additional time to develop their plans and processes in order to meet our assessment requirements. Key areas that required additional focus included: the local health economy; quality governance processes, board capability; and cost improvement plans.

The efficiency requirements on trusts are increasing, reflecting the overall pressure on the health service based on expected growth in demand for services against which there will be only limited growth in funding. In consequence this means the cost improvement plans trusts need to deliver are both very significant and

demanding. However, it is not only financial concerns that have led to our decisions to defer trusts.

2011/12 has been the first full year in which quality governance has been part of our assessment process and, as such, we have seen a number of trusts requiring additional time to meet our requirements. Looking ahead, we would expect that trusts will have addressed these issues before they start our assessment process, particularly as a result of an increased focus in this area at the SHA assurance phase.

Authorising the first ambulance trusts

Monitor authorised the first ambulance trust in March 2011 and by April 2012 had authorised four in total – South West Ambulance NHS Foundation Trust, South East Coast Ambulance NHS Foundation Trust, North East Ambulance NHS Foundation Trust and South Central Ambulance NHS Foundation Trust - all of which were successful with their applications first time. We adapted our assessment methodology in 2010/11 in order to reflect the differences between acute and mental health NHS trusts and NHS ambulance trusts and to determine how the process would be applied to ambulance trusts.

While the process remained fundamentally the same, i.e. the same high bar for financial stability, quality and governance, there were particular areas of focus for Monitor to consider for ambulance services, including: the level of preparedness in the event of large emergencies; governance arrangements surrounding the use of air ambulances and voluntary community first responders; the effective utilisation of ambulances and other emergency vehicles; and innovations such as efforts to reduce hospital conveyance rates through adopting a service model of increased 'hear and treat' and 'see and treat' care and the further development of clinical outcome measures for ambulance service providers.

South East Coast Ambulance NHS Foundation Trust (SECAMB) was one of the first ambulance trusts to be referred to Monitor for assessment. Reflecting on the assessment process, SECAMB's Chief Executive Paul Sutton said: "From 2006, when SECAMB was formed, we were focused on achieving foundation trust status and spent a number of years attending foundation trust conferences and events and meeting with Monitor to discuss the ambulance trust model. From day one, we had appointed Non Executive Directors with strong business and financial acumen who delivered a good level of challenge, so when it was announced that ambulance trusts could apply for foundation trust status, we began the process immediately. The SHA stage of the process was very challenging, but it taught us how to produce concise information and ensure that we had robust answers to questions. By the time we reached Monitor's assessment stage, we felt prepared and ready.

"While we were very clear about our business story and the team was confident, we were assessed by Monitor at the same time as implementing a new dispatch system and suffering some of the worst snowfall in the area for years. Whilst a challenge, Monitor could see how we dealt with the issues as they arose and following their robust questioning and in-depth analysis of our finances and plans, we achieved foundation trust status."

Miranda Carter, Assessment Director at Monitor, said: "The trust had developed a good cost improvement plan process, had plans in place to mitigate risk and had strong, progressive plans for its future. We did issue the trust with a side letter

because of concerns about it meeting its winter targets but this wasn't a severe enough concern to warrant not authorising the trust as they had a clear and robust action plan to get back on trajectory and to deliver performance on a quarterly basis in line with Monitor's *Compliance Framework*. It was interesting for the assessment team to work on the first ambulance trusts and to update our methodology accordingly."

Assessment process review

In 2011/12 we commissioned an independent review of our assessment process. A key driver for this was the anticipated increase in the pipeline of NHS trusts receiving Secretary of State approval to begin our assessment process. We wanted to ensure that our process was as efficient and up-to-date with the NHS and the foundation trust model as possible, was 'fit for purpose', and would enable us to meet increased demand while continuing to maintain our assessment requirements. The review looked at the assessment process as a whole and incorporated a specific piece of work around quality governance.

Overall, there were no recommendations that suggested a fundamental need to change our processes, or which highlighted any gaps, and the report concluded that assessment at Monitor is robust with a good level of challenge. However, several recommendations were made as to how we could enhance the assessment process to make it as efficient as possible.

It was recommended that we retain the format of the Board to Board meeting which provides the opportunity mid-way through the assessment process for the applicant trust to present its business plan to Monitor's Board for questioning and challenge. To enhance this process, it was recommended that we bring in additional, independent advisers with senior health sector experience to work alongside Monitor to challenge applicant trust boards at these meetings. We agreed with this recommendation and have started the process of identifying suitable candidates.

A further recommendation related to the earlier identification of issues that may prevent authorisation. We have therefore initiated a pilot which introduces a three week early stage review focusing on the four key areas that require additional focus - the local health economy; quality governance processes, board capability; and cost improvement plans and which tend to lead to a postponement or deferral. We have started working with the Department of Health to develop the pilot. We will evaluate the pilot before implementing it for the remaining applicants to ensure it is fit for purpose and can be incorporated with undue duplication with the SHA's assurance phase through the Single Operating Model. It is anticipated that this early stage review will ultimately improve efficiency within the assessment process whilst also giving applicant trusts earlier visibility of any issues that are identified, allowing time for them to be addressed.

It was also recommended that we strengthen expertise and skills in quality governance within the assessment team with the potential for an outsourced quality governance review for high-risk applicants. For remaining trusts we will continue to carry out the quality governance assessments in house but plan to second individuals from NHS trusts with senior operational experience to support our internal team and to increase the depth of questioning and challenge. This mix of current assessors who have a detailed understanding of our evidence-based, due diligence approach, and external recruits with operational insight and NHS management backgrounds, should provide an optimal skill mix to challenge on quality governance.

We have also been working closely with the CQC on the timing of the annual reviews they undertake to ensure that these are completed before we make our decision about a trust's authorisation.

Enhancing the assessment process further

In light of our formal intervention at University Hospitals of Morecambe Bay NHS Foundation Trust, which took place 13 months after the trust was authorised (see page 19), Monitor's Board commissioned a lessons learned review which we will use to inform further improvements to our assessment process. The review, conducted by our internal auditors, highlighted two further recommendations to improve our assessment approach. The first recommends that Monitor finds a more systematic way of evaluating the cumulative impact of concerns that individually may not cause alarm about an applicant but in combination may lead to a judgement to probe more deeply into its operations before concluding on authorisation. The second recommends that Monitor obtains a letter of representation from the boards of all applicant trusts confirming that the information they have provided to Monitor is complete and does not omit any potentially significant items. We agree with these recommendations and that deeper probing may be required for applicants which are close to Monitor's authorisation threshold. We will implement both recommendations subject to appropriate consultation during 2012/13. Our internal audit report and management response to lessons from Morecambe Bay can be found on our website.

Looking ahead and the foundation trust pipeline

In September 2011, all trusts, strategic health authorities (SHA) and the Department of Health signed tripartite formal agreements setting out the steps that need to be taken by each trust to ensure readiness for the foundation trust application process.

We expect to see an increase in referrals in 2012/13 because of these tripartite agreements as well as stronger performance management of the applicant pipeline by the Department of Health, which has been brought about through the development of a Single Operating Framework for the SHA Assurance Framework and the upfront work on quality governance and board governance as part of this framework.

We continue to engage in regular dialogue with the Department of Health about progress on the foundation trust pipeline so we can use our available resources accordingly. Given the current trajectory, we expect that we will need to start scaling up resources to manage up to four new assessments each month.

Operating a proportionate, risk-based regulatory regime

Monitor's primary role is to operate a robust, proportionate and risk-based regulatory regime which sets the conditions under which NHS foundation trusts are required to operate and ensures that these are met. We hold boards to account for governance, a key driver of organisational success, and to ensure they are financially stable. Where improvements are needed, we work closely with a board to ensure it has plans in place to deliver these. Where it fails to do this we will quickly take action, using our formal powers to intervene if necessary.

Overview of 2011/12

- In 2011/12, we found ten foundation trusts in significant breach of their terms of authorisation and we continued to monitor seven trusts which were in significant breach of their terms of authorisation throughout 2011/12.

- We have used our formal powers of intervention at two trusts, University Hospitals of Morecambe Bay NHS Foundation Trust and Gloucestershire Hospitals NHS Foundation Trust.

- 2011/12 has seen an increase in the total number of foundation trusts (143 in 2011/12, compared with 136 in 2010/11), and an increase in trusts being found in significant breach and therefore requiring enhanced monitoring (17 in 2011/12, compared with 10 in 2010/11).

- In 2011/12 we continued to publish on our website the Matrix of Evidence for all trusts found in significant breach in order to be as transparent as possible about our evidence-based decision making. These matrices show the relevant and available evidence, the specific areas of concern, the mitigations and the residual concerns of Monitor's executive.

- We required foundation trusts, for the first time in 2011/12, to prepare an annual governance statement with enhanced reporting on quality governance to be submitted with their annual reports and accounts.

Further detail about each of the trusts in significant breach is on page 19.

A challenging year

The NHS as a whole, and the foundation trust sector within it, faces the challenge of improving value - the quality of care provided for every pound spent. *The Operating Framework for the NHS in England 2011/12* laid out responses to the £20 billion efficiency savings challenge - including an effective price reduction of 1.5%; the introduction of a maximum tariff and an extended number of normative tariffs, and continued reductions in pricing for some activity, such as the 30% marginal tariff for emergency activity above 2008/09 levels.

Given this efficiency and value challenge, it is vital for all NHS foundation trusts to have the right governance processes in place so they understand where risks lie and how they may need to be mitigated and managed. During 2011/12, we have continued to place an emphasis on trusts needing to focus on their risk management.

Working with the Care Quality Commission

All foundation trusts are required to comply with the CQC's essential standards. In 2011/12 there has been a higher number of foundation trusts with outstanding CQC compliance actions than was anticipated in their annual plans for the year. This is

due to an increase since quarter four 2010/11 in the number of trusts where the CQC has moderate concerns. We have reflected this in our risk ratings, resulting in a higher number of trusts assigned an amber-red risk rating to indicate that there could be some concerns about the overall governance of these trusts. Where there has been evidence that CQC issues are not being resolved quickly, we have considered more formal regulatory action. We continue to work closely with the CQC to ensure a coordinated approach and to deliver real benefits for patients.

Addressing the problems
We have been particularly focused this year on encouraging trusts in significant breach to:

1. carry out an in-depth diagnosis of the underlying issues so that Monitor and the trust board can understand as early as possible in the process what the range of problems are;
2. ensure that a robust and realistic recovery plan is in place which reflects this diagnosis; and
3. ensure trusts have the capacity and capability in place in order to drive implementation of the recovery plan.

At each of the stages outlined above, trusts may need to bring in external expertise to support them in developing and delivering this process. It is important that this takes place as early as possible to ensure that the trust can more quickly begin to demonstrate a return to sustainable compliance.

Monitor requires trusts which are carrying out this in-depth diagnosis to agree the scope of the diagnosis with us and, if external support is brought in by the trust, we will request that Monitor is a joint addressee of any report produced so we can consider the recommendations and determine what action we want the trust to take.

Overview of regulatory action in 2011/12

The following pages summarise:

- the NHS foundation trust found in significant breach of its terms of authorisation during 2011/12, where Monitor used its statutory powers of intervention;
- NHS foundation trusts found in significant breach of their terms of authorisation during 2011/12, where Monitor did not use its statutory powers of intervention;
- NHS foundation trusts which have remained in significant breach throughout 2011/12; and
- NHS foundation trusts which have demonstrated improvements and have been removed from significant breach during 2011/12.

In this section of the report we have also included information about:

- the NHS foundation trust which has demonstrated improvements and has been removed from significant breach in quarter one 2012/13 (as at 12 June 2012);

- the NHS foundation trust found in significant breach of its terms of authorisation prior to 2011/12, where Monitor used its statutory powers of intervention during 2012/13; and
- NHS foundation trusts found in significant breach of their terms of authorisation during quarter one 2012/13 (as at 12 June 2012).

This information is correct as at 12 June 2012 and our website contains the latest information. We publish an overview of the performance of foundation trusts each quarter on our website, including issues on individual trusts and the action we are taking in each case.

Once a foundation trust is in significant breach, Monitor meets the trust regularly to ensure the trust board develops a credible recovery plan. The action taken to deliver the plan is closely monitored. In the case of financial concerns, Monitor requires the trust to report its financial position on a monthly basis.

Should we find sufficient progress is not being made, or that new problems have emerged, we again consider the use of our statutory powers. At all times we work closely with the Care Quality Commission and require boards of trusts in significant breach to safeguard quality when implementing recovery plans.

Summary of regulatory action

NHS foundation trust found in significant breach of its terms of authorisation during 2011/12, where Monitor used its statutory powers of intervention.
University Hospitals of Morecambe Bay NHS Foundation Trust
The trust was found in significant breach of three terms of its authorisation in October 2011: its general duty to exercise its functions effectively, efficiently and economically; its governance duty and its health care targets and other standards duty. This was triggered by serious concerns about maternity services highlighted by the Care Quality Commission (CQC) which took enforcement action against the trust as a result. Monitor used its regulatory powers of intervention to appoint clinical experts to review underlying problems in maternity services and to require the trust to commission an independent review into overall governance. Before the review of maternity services was complete, Monitor ensured the trust took immediate action to address the most urgent issues as they were identified. We also required the trust to fix the problems identified by the reviews. Monitor's original concerns about weak governance and leadership at the trust were reinforced by the findings of these reviews, an additional review into problems with outpatient follow-up appointments and further investigation by the CQC into emergency care services. On 6 February 2012 Monitor's Board therefore decided to intervene again to strengthen the leadership of the trust so that it could more quickly fix the problems identified, for the benefit of patients. Monitor appointed an interim Chair to drive the recovery of the trust. We also required the trust to strengthen the board further through the appointment of a

Turnaround Director, an interim Chief Operating Officer and the development of a Programme Management Office to support delivery of the recovery plan for the trust.

Since our second intervention the trust has strengthened the board as required. In addition, it has appointed four new Non-Executive Directors, a new Medical Director and an interim CEO, developed a turnaround plan for 2012/13, fixed the problems identified in outpatients and made progress in addressing concerns in other areas.

Concerns remain particularly in maternity and emergency care and further work is still required to be able to demonstrate the benefit to patients from the changes already made. The trust faces a significant financial challenge going forward and a longer term restructuring plan will be delivered in autumn 2012 describing how the longer term future of the trust and its services should be safeguarded.

The trust is required to report regularly to us on its progress in implementing the actions we have required and addressing our residual concerns.

NHS foundation trusts found in significant breach of their terms of authorisation during 2011/12 and which were not subject to formal intervention.

Medway NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in April 2011: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by an unplanned financial risk rating of 2 at quarter 3 2010/11 and concerns around board level scrutiny and assurance processes concerning financial planning and performance.

The trust took steps to address the issues and commissioned external advisers to review the trust's 2011/12 financial plan and financial governance arrangements. As a result of these reviews, the trust committed additional resource to the preparation of its financial recovery plans, strengthened its Programme Management Office, and developed an action plan to improve financial governance.

The trust improved its financial performance in 2011/12, and reported a financial risk rating of 3. However, financial performance remained behind plan and an external review of the trust's 2012/13 financial plan identified continuing issues in financial planning and recommended further improvements should be made to address Monitor's concerns. We will hold the trust to account for delivery of these improvements.

The trust appointed a new Chair who took up post on 1 April 2012.

The trust is required to report to Monitor on a monthly basis against the delivery of key milestones, including its financial recovery plan. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

Peterborough and Stamford Hospitals NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in October

2011: its general duty to exercise its functions effectively, efficiently and economically; its governance duty; and its duty to remain financially viable. This was triggered by an unplanned financial risk rating of 1 at quarter 1 2011/12 and concerns relating to the trust's financial position and the board's oversight of financial planning. The trust's financial position deteriorated sharply following the move to a new Private Finance Initiative (PFI) site in November 2010. The amount of activity the trust was being paid for also fell in 2010/11 and contributed to the trust's financial position.

Since being found in significant breach, the trust has made substantial changes to its board, including appointing a new Chief Executive, a new Chief Operating Officer and four new Non-Executive Directors. The extension of the Chair's term of office for the period of one year has been approved by the governors.

Additional funding has now been put in place which should secure the trust's liquidity position in the short term. This allows the trust, Monitor, the commissioners and the Department of Health (DH) to reach a sustainable solution for the medium to long term. This solution will involve a combination of cost reduction and productivity improvements being delivered by the trust, long-term PFI support from DH and agreement to a sector plan.

Monitor and DH are clear the solution must provide patients with the services they need at an affordable cost. If we do not think the trust board is delivering improvements quickly enough, we will consider using our regulatory powers to intervene.

Burton Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in November 2011: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by a financial risk rating of 2 at quarter 1 2011/12 and risks identified by Monitor, particularly the significant financial problems caused by the trust's income being below planned levels. The trust was previously found in significant breach in February 2010, which was as a result of governance concerns related to persistent breaches of the A&E target. The trust was removed from significant breach in November 2010 after improvements had been made to its A&E performance and the management of targets.

Since being found in significant breach in November 2011, the trust has prepared a financial recovery plan which includes cost improvement plans. This should enable the trust to reduce its cost base in line with income whilst safeguarding quality. The trust expects to recover to a financially stable position in 2013/14. It has also reviewed capacity and capability within the organisation and invested in additional resource, including an external Turnaround Director, to ensure it is in the best possible position to deliver financial recovery.

In line with milestones set by Monitor, the trust commissioned a review of board governance and is now implementing an action plan to address the findings. The existing Chair announced his decision not to stand for a further term in March 2012 and the governors are now in the process of recruiting a new Chair.

The trust is required to report to Monitor on a monthly basis against the delivery of

key milestones, including its financial recovery plan. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

James Paget University Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in November 2011: its governance duty; and its health care targets and other standards duty. This was triggered by two CQC enforcement actions as a result of the trust's failure to address effectively concerns raised by the CQC in relation to compliance with standards for nutritional needs across some wards. Monitor did not formally intervene, but agreed with the trust that it would commission an external review of its governance systems and processes. Subsequent CQC inspections have noted improvements and the CQC enforcement action has been lifted as a result.

Since Monitor found the trust in significant breach, there is a new Chair who started in June 2012, and a new long term interim Chief Executive recruited to oversee the turnaround.

Some additional concerns, including further enforcement action by CQC, have emerged since the trust was found in significant breach. The trust has made additional changes to its board and has acted to address CQC concerns resulting in the most recent enforcement action being lifted. The trust has also put in place a plan to improve patient flow in emergency care, which has resulted in improved performance and outcomes for patients.

The trust is required to meet with Monitor on a regular basis until it can demonstrate sustainable compliance with its terms of authorisation.

Southend University Hospital NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in December 2011: its governance duty; and its health care targets and other standards duty.

This was triggered by the trust's ongoing failure to meet cancer and C.difficile targets and CQC concerns which resulted in the trust being red-rated for governance risk by Monitor in the first quarter of 2011/12. Following a period of scrutiny, we found that the trust did not have effective systems in place to identify proactively and address risks, or to establish whether risks relate to underlying governance issues. We concluded this was evidence of weak governance.

Monitor did not formally intervene but agreed with the trust that it would commission external support to develop and assure its governance systems and support the trust in developing robust financial plans.

Since being found in significant breach, the trust has put plans in place to improve its governance systems. It has achieved compliance with the majority of performance targets and strengthened its financial plans.

The trust is required to meet with Monitor on a regular basis until it can demonstrate sustainable compliance with its terms of authorisation.

Derby Hospitals NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in January 2012: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by an unplanned financial risk rating of 2 at quarter 1 2011/12, the trust's financial performance in 2011/12 and the challenges it is facing to improve its position during the next 12 months. Monitor's scrutiny of the trust raised concerns about its poor financial performance and its future plans to address this. These concerns were confirmed by an independent review that Monitor asked the trust to commission. The review indicated the trust's board does not have a strong enough role in scrutinising financial planning and performance and that its financial plans required further development. Therefore, Monitor required the trust to develop a robust financial plan for 2012/13 and to strengthen its financial governance. The trust subsequently developed its plan, and commissioned an external assurance review which concluded that the plan was credible. An external review of the improvements made by the trust in respect of financial governance will be completed in July 2012. The trust must now focus on delivery of its financial plan to demonstrate that it can improve its financial performance and deliver a sustainable recovery. The trust will be subject to monthly monitoring and regulatory meetings with Monitor until we are satisfied that it is no longer in breach of its terms of authorisation. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.
Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in January 2012: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by an unplanned financial risk rating of 2 at quarter 2 2011/12 as a result of financial problems which stemmed from an ongoing failure to plan effectively and address underlying performance issues. Having recorded a high financial risk for the first two quarters of 2011/12, the trust subsequently failed to keep up with its financial recovery plan. We have required the trust to develop a robust recovery plan in order to move it to a sustainable financial position. Monitor has required the trust to review and strengthen its financial governance. The trust currently has outstanding CQC compliance actions relating to Outcome 21 (records) which it is addressing. The trust is required to meet with Monitor on a regular basis until it can demonstrate sustainable compliance with its terms of authorisation.
Wirral University Teaching Hospital NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in March 2012: its governance duty; and its health care targets and other standards duty. This was triggered by a failure of the trust's board to address breaches of the referral to treatment waiting time (RTT) target quickly or effectively enough.

Monitor has required the trust to obtain an independent review of its board governance. In addition, we have required the trust to develop and implement a plan for sustainable RTT compliance, for which the NHS Intensive Support Team has provided support.

Since being found in significant breach, the trust has met the RTT target each month since February 2012 and is forecasting achievement for June 2012. The CQC has a minor concern relating to medicines management which the trust is addressing.

The trust is required to meet with Monitor on a regular basis until it can demonstrate sustainable compliance with its terms of authorisation.

Cambridgeshire and Peterborough NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in March 2012: its governance duty. This was triggered by a warning notice as a result of the failure of the trust's board to address CQC concerns within an appropriate period of time, leading the CQC to take enforcement action. The trust has undertaken a review of board governance and agreed with Monitor that it would undertake a review of quality governance. Whilst the trust has subsequently addressed specific areas of concern raised by the CQC, and the enforcement action has been lifted, we remain concerned that quality governance and risk management are insufficiently embedded in the trust.

The trust's board is being strengthened with the appointment of a new Chair and new Non-Executive Directors. The executive team has also seen significant change with the appointment of a new CEO, Director of Nursing, Medical Director and Director of Operations. The trust is required to put in place a turnaround plan to assure improvements in quality governance.

The trust is required to meet with Monitor on a monthly basis against the delivery of key milestones. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

NHS foundation trusts that have remained in significant breach throughout 2011/12

Mid Staffordshire NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in March 2009: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by significant failings relating to quality of care, governance and leadership within the trust.

Monitor intervened in March 2009 and appointed an interim Chair (David Stone) and required the trust to appoint an interim Chief Executive (Eric Morton). When Eric Morton's appointment ended in July 2009, the trust's recruitment campaign failed to recruit a permanent Chief Executive. We formally intervened again in July 2009 to appoint Antony Sumara as interim Chief Executive for a period of two years.

At the same time, the trust's board of governors appointed a substantive Chair, Sir Stephen Moss. The aim of this was to ensure that strategic and operational leadership was in place to stabilise the trust, enabling it to address recommendations of a report published by the Healthcare Commission in March 2009, and maintain and build on momentum of the improvements already achieved.

In March 2011, a substantive Chief Executive, Lyn Hill-Tout, was appointed who formally started in post in June 2011. In February 2012, Professor John Caldwell replaced Sir Stephen Moss as Chair.

The trust has made a number of improvements against the CQC essential standards of care and currently the CQC has one moderate concern and three minor concerns about how the trust is meeting essential standards of quality and safety. The CQC recognises that progress continues to be made at the trust in delivering improved care to patients. The trust is still breaching targets relating to A&E and RTT and is expected to deliver sustainable compliance with these in 2012/13. Clinical networks have been developed with University Hospitals of North Staffordshire to provide further clinical support.

The trust's finances are weak and the trust has developed a financial recovery plan based on improved operational efficiency. Funding has been put in place to secure the trust's liquidity position in the short term. This allows the trust, Monitor, the commissioners and the Department of Health to agree a sustainable solution for the medium to long term.

The executive team has been strengthened to accelerate further progress in both quality and finance. Major challenges remain to ensure that changes are embedded and sustained, and the trust must develop and maintain high standards of quality governance.

The trust will meet monthly with Monitor to report progress against key clinical and financial measures and will continue to be the focus of regulatory scrutiny until we are assured that it has returned to sustainable compliance with its authorisation. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

Heatherwood and Wexham Park Hospitals NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in July 2009: its general duty to exercise its functions effectively, efficiently and economically. This was triggered by an unplanned financial risk rating of 2 in quarter 4 2008/09 and by a rapid decline in its financial and operational performance. The trust board was required to submit a delivery plan, which was presented to Monitor in October 2009.

We intervened at the trust in October 2009 to appoint an interim Chair, following the previous Chair's decision to stand down, and to direct the trust to appoint an interim Medical Director. The trust has since made a permanent appointment to the role of Medical Director.

During 2010/11 the trust developed a financial recovery plan based on planned

reductions in commissioned activity and improved operational efficiency. This plan was supported with temporary funding. The trust delivered the plan for 2010/11 and financial performance was substantially improved. However, the financial position deteriorated again in 2011/12, as planned reductions in activity were not achieved within the local health economy and costs increased disproportionately.

Following the appointment of Philippa Slinger as acting Chief Executive Officer in October 2011 (substantive from 20 March 2012), the trust has secured temporary funding to support it until a strategic solution has been agreed with the principal partners in the local health economy. A longer-term recovery plan has been developed and is now being evaluated.

The trust was registered by the CQC with conditions in April 2010, all of which have now been lifted.

Monitor has required the trust to undertake a governance review to identify how its governance arrangements should be strengthened. We will monitor the implementation of the recommendations that emerge from this review.

The trust is required to report to Monitor on a monthly basis against the delivery of key milestones, including its financial recovery plan, and will continue to do so until it is able to demonstrate full and sustainable compliance with its terms of authorisation. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

Basildon and Thurrock University Hospitals NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in November 2009: its general duty to exercise its functions effectively, efficiently and economically; its governance duty; and its health care targets and other standards duty. This was as a result of a number of quality concerns including high Hospital Standardised Mortality Ratios, persistent breaches of the Hygiene Code and the CQC's reviews of children's services and learning disability services.

We intervened and required the trust to appoint a taskforce, including senior clinicians, to improve quality and put in place key performance indicators to demonstrate progress and to strengthen senior clinical capacity.

In April 2010, the trust was registered by the CQC with conditions, all of which have now been lifted. During 2010/11, a number of CQC planned and responsive reviews identified further concerns. In March 2011, we supported the governors in the appointment of Sir Peter Dixon as interim Chair to oversee further improvements in the trust. Currently, the CQC has a level of concern in three areas: safeguarding, legionella and A&E staffing. We are in close contact with the trust and the CQC to monitor progress on these areas. Monitor and commissioners instigated independent reviews of the issues relating to legionella which have highlighted key actions for the trust to take to reduce risk in this area.

Since Monitor's intervention, the trust has shown improvements in all original areas of concern. There have been a number of changes to the board including the appointment of a new substantive Chair and a new Director of Nursing. The capacity

of the executive team has been strengthened with the creation of a Director of Operations role. A new Chief Executive takes up the role from 1 October 2012.

The trust will be kept under close scrutiny and is required to report to Monitor on a regular basis against the delivery of key milestones, and will continue to do so until it is able to demonstrate sustainable compliance with its terms of authorisation. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

Milton Keynes Hospital NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in March 2010: its governance duty. This was triggered by concerns raised by CQC in respect of maternity services and Monitor's concerns relating to effective, timely and pro-active design and implementation of maternity action plans, the effectiveness of board assurance processes, and board and clinical leadership.

We intervened and required the trust to appoint external, expert clinical advisers to assist in accelerating the delivery of the necessary improvements within its maternity service. In April 2011 the CQC lifted all conditions on the trust's maternity services, following evidence submitted by the trust, and the trust is now fully compliant in this area.

Following a responsive review in January 2011, the CQC issued three urgent compliance actions outside of maternity services, to which the trust has responded. On its subsequent unannounced visit, the CQC determined that two of these compliance actions had been addressed, however one, in relation to cleanliness and infection control, had not. Consequently, a warning notice was issued requiring the trust to become compliant within 30 days. In August 2011 the CQC issued further compliance actions in respect of the trust's paediatrics service. As a result of these serious issues, the trust took rapid action to address the CQC's concerns and strengthen its clinical leadership. The warning notice was removed in January 2012 and paediatrics compliance actions removed in April 2012. The trust is now compliant with CQC standards.

During 2010/11, the trust's finances significantly deteriorated which resulted in Monitor giving it a financial risk rating of 1. In response, the trust developed a recovery plan which included challenging cost improvement plans for 2011/12 and 2012/13. In line with this plan, the trust received additional funding to secure its liquidity position in 2011/12. The trust has also set up a Programme Office to assist in the delivery of these plans, which are on track.

The trust has strengthened its board and appointed a new Chair, Finance Director, interim Chief Executive, Medical Director and an acting Chief Operating Officer, and has replaced four out of six Non-Executive Directors. Following Monitor finding the trust in significant breach, the trust also brought in external advisers to assess its board governance and it is implementing the recommendations from this assessment.

The focus of Monitor's regulatory action is now on the trust's financial position. The

trust will be subject to monthly monitoring and regular regulatory meetings with Monitor until we are satisfied that it is compliant with its terms of authorisation.

Tameside Hospital NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in February 2011: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by the trust delivering an unplanned financial risk rating of 2 at quarter 2 2010/11.

The trust has developed a recovery plan to address both financial and governance concerns. Since Monitor found the trust in significant breach, the Chair, Finance Director and the Nursing Director have all left the trust. In November 2011, a new Chair was appointed to lead the recovery and the trust has recruited new substantive executives to lead the key areas of finance and nursing. The trust performed well against its recovery plan in 2011/12 but has substantial improvements to make in 2012/13 in order to deliver a surplus financial position.

The trust was registered by the CQC with conditions in April 2010, all of which have now been lifted. In May 2011, as a result of a planned review, CQC found one moderate and four minor concerns about how the trust was meeting essential standards of quality and safety. A further unannounced review in October 2011 resulted in a warning notice. This stemmed from the trust's failure to address issues which had previously been identified. The trust is currently not compliant with three CQC outcomes and must address the issues raised by CQC as a matter of urgency. The trust has a significant cost improvement plan to deliver in 2012/13 and must ensure that quality improves as costs are taken out.

The trust is working with commissioners in the wider local health economy to determine the most appropriate way to deliver services across Manchester. The results of this work will inform the strategic direction of the trust.

The trust is required to report to Monitor on a monthly basis against the delivery of key milestones, including its financial recovery plan, and will continue to do so until it is able to demonstrate full and sustainable compliance with its terms of authorisation. If we do not think the trust board is delivering improvements quickly enough to return to full compliance with its authorisation, we will consider using our regulatory powers to intervene.

NHS foundation trusts removed from significant breach during 2011/12

Poole Hospital NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in July 2010: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by an unplanned financial risk rating of 2 at quarter 4 2001/10, a failure of financial control and a lack of

robustness in the recovery plan prepared in response.

After being found in significant breach, the trust developed a revised recovery plan and set up a Programme Management Office to deliver it, and engaged external advisers to review the effectiveness of board governance. The Chair announced his intention to stand down in November 2010 and, with Monitor's support, the governors appointed an interim Chair in December 2010 and a substantive Chair in May 2011.

The trust was removed from significant breach in January 2012 as a result of improvements made in its financial position which led to an £0.1million surplus in 2011/12. The trust had made significant improvements to its governance and an independent review concluded that the trust has stronger leadership at board level (its board membership changed significantly during its recovery period), and Non-Executive Directors are providing more effective challenge.

A case study about Poole Hospital NHS Foundation Trust is on page 32.

Dorset County Hospital NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in October 2009: its general duty to exercise its functions effectively, efficiently and economically. This was triggered by a financial risk rating of 1 at quarter 2 2009/10 and a deterioration in financial performance and operational efficiency.

After being found in significant breach, the trust achieved a steady improvement in financial performance. Having reported a deficit in 2009/10 and 2010/11, the trust delivered a surplus for 2011/12. The trust also demonstrated improvements in its governance; the trust's board membership has changed significantly and there was evidence of improved board level assurance and oversight of financial information.

The trust has demonstrated considerable progress towards addressing our concerns and has demonstrated that it has robust plans in place to continue to do so. We removed the trust from significant breach in November 2011 as there was sufficient evidence of a sustainable improvement in financial performance and governance.

NHS foundation trusts removed from significant breach during quarter one 2012/13 (as at 12 June 2012)

Blackpool Teaching Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in November 2010: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by the trust delivering an unplanned financial risk rating of 2 at quarter 1 2010/11, and a failure to put in place effective governance procedures to ensure that cost improvement plans were delivered.

The trust has successfully implemented a recovery plan to address both financial and

governance concerns. We closely monitored the trust against its financial recovery plan. The trust achieved a surplus above plan in 2011/12 and delivered a challenging cost improvement plan in line with plan.

The board commissioned an external review of governance to provide assurance on board effectiveness and high-level governance arrangements. We have monitored the trust against the implementation of this review's recommendations, which are now substantively complete.

The trust was removed from significant breach in May 2012 as a result of the improvements in its financial position and delivery of planned cost improvement programmes in 2011/12. It had also significantly improved governance around forward planning, and an independent review noted there was improved challenge at board level.

NHS foundation trust found in significant breach of its terms of authorisation prior to 2011/12 where Monitor used its formal powers of intervention during 2012/13.

Gloucestershire Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in September 2009: its general duty to exercise its functions effectively, efficiently and economically; and its health care targets and other standards duty. This was triggered by the trust's failure to address persistent breaches of the A&E and thrombolysis targets and its weak financial performance.

Throughout 2010 there was a significant deterioration in the trust's financial position. The trust appointed a new Finance Director and, following discussion with Monitor, it commissioned an external firm to strengthen its financial management. The trust successfully delivered both its 2010/11 and 2011/12 plans with small surpluses and delivered ambitious cost improvement programmes in both years.

Following a deterioration in performance against the A&E target in the second half of 2011/12, in May 2012 Monitor used its regulatory powers of intervention to require the trust to develop and implement an effective plan to improve its emergency care pathway, with the support of the NHS Intensive Support Team.

The CQC has no outstanding concerns about patient care at the trust. Monitor's intervention seeks to ensure that the trust makes effective improvements to the delivery of emergency care and addresses all underlying issues that have caused poor performance. The trust is now showing some improvement in performance in its A&E department and Monitor is working with the trust to ensure that it sustains this improvement. The trust will be required to report regularly to us on progress in implementing the necessary changes and delivering the improvements required.

NHS foundation trusts found in significant breach of their terms of authorisation during 2012/13 (as at 12 June 2012)

Bolton NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in April 2012: its governance duty; and its health care targets and other standards duty. This was triggered by the trust's failure to meet health care targets, specifically A&E waiting times and the Referral to Treatment 18 week target, and failings in board governance.

Monitor has required the trust to obtain an independent review of its board governance. In addition, we have required the trust to develop and implement action plans for sustainable improvements in RTT and A&E targets. The NHS Intensive Support Team has completed its RTT diagnostic and will be supporting the trust in delivering its action plan to improve sustainably RTT performance. Support in developing an action plan to deliver improved A&E performance is ongoing.

Since being found in significant breach, the trust's financial position deteriorated substantially in quarter 4 2011/12. Monitor has required the trust to obtain an independent review of its financial position and financial governance, the results of which will be built into a recovery plan.

The trust will be kept under close scrutiny and is required to produce a credible recovery plan, demonstrate it has the ability to deliver the plan and report to Monitor on a monthly basis against the delivery of key milestones. Failure by the trust to deliver timely and sustainable progress towards full compliance with its Authorisation would be likely to cause Monitor's Board to consider again the trust's position and the potential use of its formal powers of intervention.

Royal National Hospital for Rheumatic Diseases NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in May 2012: its general duty to exercise its functions effectively, efficiently and economically. This was as a result of a deterioration in the trust's financial position in 2011/12, and a forecast weak financial position in 2012/13. Monitor previously intervened on two occasions at the trust in 2008/09 - see Monitor's website for further information.

The trust has taken steps to reduce its costs and improve efficiency, but it is facing significant structural challenges resulting in financial problems, many of which are beyond its immediate control. The trust is financially challenged due to its small size and the limited number of specialist services it provides. This restricts its opportunities to achieve economies of scale and makes it more vulnerable to relatively small changes in the number of patients it treats.

We are requiring the trust to develop a robust plan that delivers a sustainable future and work with stakeholders to secure the appropriate funding support. The trust will be kept under close scrutiny and will be required to report to us on a regular basis against the delivery of key milestones.

Transforming Community Services transactions
Monitor's role in risk rating transactions is specifically to evaluate the impact of a proposed transaction on a foundation trust's governance and finances. We also receive advice from the Co-operation and Competition Panel on the impact of a proposed transaction on competition and whether to require any specific actions from a foundation trust as a result.

We carry out a comprehensive risk evaluation process and the resulting indicative risk ratings are approved by Monitor's Compliance Board Committee and issued to the foundation trust. Foundation trusts cannot enter into a legally binding agreement with regard to a major investment until they have received formal notification from Monitor that they have complied with the requirements of the *Compliance Framework*.

We have risk-rated 30 Transforming Community Services transactions since December 2010 and published our lessons learned from these transactions in order to inform and support future mergers and acquisitions.

Some of the main areas that we identified as needing focus included:

- defining a clear strategic reason for the transaction;
- ensuring the delivery of sustainable cost improvement plans and significant efficiency improvements across the combined entity;
- understanding the amount of time and level of senior management team involvement; and
- ensuring that performance management processes are in place on Day 1.

Working with the Co-operation and Competition Panel
We work together with the Co-operation and Competition Panel (CCP) when a foundation trust is proposing a merger. The CCP ensures that the Principles and Rules for Co-operation and Competition for the provision of NHS-funded services support the delivery of high quality care for patients and value for money for taxpayers.

The CCP will look at each case and make an independent recommendation to Monitor and our Board will decide what action it will take. There were two foundation trust merger cases that went to the CCP in 2011/12: Basingstoke & North Hampshire NHS Foundation Trust and Winchester & Eastleigh Healthcare NHS Trust; and Norfolk and Waveney Mental Health NHS Foundation Trust and Suffolk Mental Health NHS Trust.

Monitor's Board agreed with the CCP that the Basingstoke and Winchester merger should go ahead as it met the Principles and Rules for Co-operation and Competition. With regard to the Norfolk and Suffolk merger, the CCP identified risks relating to the impact of the merger on patient choice and competition. Monitor's Board decided that allowing the integration of services would be in patients' interests, especially in terms of quality and safety, and decided that the risks should be addressed through a package of remedies.

Addressing financial and governance concerns

Poole Hospital NHS Foundation Trust was found in significant breach of its terms of authorisation in July 2010. We were concerned by the financial position of the trust as well as its governance during 2009/10 when it reported a deficit of £4.5 million against a planned surplus of £2.1 million. Over an 18 month period, the trust has made significant improvements both financially and in its leadership and governance and, as a result, was removed from significant breach in January 2012.

Chris Bown, Chief Executive of the trust says: “When I joined Poole Hospital in April 2010, it was clear that there were a number of serious issues to address including poor financial reporting to the board, under delivery of savings plans and a lack of effective communication at senior level. There was a need for significant organisational change and Monitor’s decision to place the trust in significant breach was inevitable.”

Working with a team of external advisers, the trust established a Programme Management Office (PMO) which marked the start of the turnaround process. The PMO, led by a turnaround director, supported the development of the cost improvement plans process and introduced other cost control mechanisms. Board governance has been strengthened and a number of new board Directors appointed.

“Through good clinical leadership, we changed the way we delivered a number of clinical services and it had a huge impact,” explains Chris. “We also introduced clinical directorates and started to develop service-line management and service-line reporting. Financial reporting and cost control improved dramatically and has helped us to save £16.5 million over the past two years.”

The trust has been removed from significant breach, has a financial risk rating of 3, is making a surplus and is in a more stable financial position since it was originally escalated for being in significant breach of its terms of authorisation. The board has looked at the increasingly challenging economic and clinical environment and taken the decision to a merger with nearby Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust. This will enable both trusts to continue delivering the best possible services for patients whilst also safeguarding taxpayers’ interests.

Richard Guest, former Director at Monitor, says of the trust: "Recovering from a challenging financial position is always difficult for a trust and requires a real effort from its board and staff. Since being found to have breached its terms of authorisation, Poole Hospital has significantly improved its finances and strengthened its board. As a result, the trust is now in a stronger position to focus on delivering quality services for patients. This is the ultimate objective whenever we take regulatory action, and we are pleased that Poole Hospital has addressed our concerns."

Promoting the development of well-led NHS foundation trusts

Robust and effective leadership within foundation trusts is essential to their success. We invest time in helping boards to be strengthened, supporting governors to understand their roles, and encouraging senior management teams to embrace training and development. At a time when foundation trusts are facing ongoing financial challenges and changes to the way they are regulated, this development and strong leadership is more important than ever.

An overview of our work in 2011/12
Despite a year of continued spending restrictions which has impacted on the amount and level of work we can achieve in this area, we have managed to maintain a good level of training and development for boards and senior staff within foundation trusts. The focus remains on achieving value while maintaining quality and our work on developing service-line management and supporting trusts in the delivery of ever more challenging cost improvement plans has been central to this.

In 2011/12 we produced a range of publications aimed at developing foundation trusts and ensuring best practice is shared and implemented. We have published:

- *Current practice in NHS foundation trust member recruitment and engagement* – this report was produced in partnership with Electoral Reform Research and Membership Engagement Services. The report looks at trends in the recruitment and engagement of members and offers best practice examples for current foundation trusts and aspirant trusts to consider. Overall the research shows that foundation trusts put significant effort into recruiting members and keeping them engaged but that it is becoming increasingly difficult to encourage members to stand for governor elections.

- *Survey of NHS Foundation Trust Governors 2010/11* – this report summarises the findings of a survey of NHS foundation trust governors conducted by Monitor between December 2010 and January 2011. From what governors are telling us, there appears to have been significant progress in many areas of carrying out the governor role since 2007 when Monitor undertook a previous survey of NHS foundation trust governors. Nonetheless, there remain some issues and training needs to address in order to support governors and maximise their role going forwards.

- *Delivering sustainable cost improvement programmes* – this is a joint report with the Audit Commission that identifies important lessons on developing CIPs and provides examples of how CIPs can be delivered without compromising patient care, safety and satisfaction.

We organised a series of events and continued to develop our popular training and development programmes:

- Non Executive Director development programme – to develop personal skills and a broad understanding of the NHS.

- NHS strategic financial leadership alumni programme – a follow-up to the Cass Business School strategic financial leadership programme designed to provide continued support to finance directors in a challenging economic environment.

- FT Chairs' Academy – co-sponsored with the Foundation Trust Network the Academy includes topics such as board effectiveness, health care strategy and local economy partnerships.

- Webinars with the HFMA: one of the webinars – see below for further information – focused on lessons learned from two trusts who have implemented SLM.

- Service-line management: The need to move towards a different model of service delivery (see below).

Better value in health care
Building on our work to promote value in health care in 2010/11, we have this year published a joint report with the Audit Commission. *Delivering sustainable cost improvement programmes* is a best practice guide to developing and implementing effective cost improvement plans.

The report found a significant variation in the approach and success of cost improvement plans across different organisations and sets out evidence to demonstrate that a successful cost improvement plan is not simply a scheme that saves money; but includes a long-term plan to improve patient care, satisfaction and safety. Some of the more straightforward cost improvement plan schemes, such as vacancy freezes and a cut in use of agency staff for example, have already been carried out in most organisations and now a more strategic approach is needed.

Service-line management
We have been committed to supporting foundation trusts in delivering effective service-line management (SLM) since we introduced the initiative in 2006. SLM is key to a hospital's strong performance and works by clinical leaders managing service-lines and having the information, capability and decision rights to manage services with a large degree of autonomy.

2011/12 has seen the development of our Accelerated Service-line Management Programme. The Programme has been designed to enable trusts to fully understand their current position with SLM implementation by using our SLM framework assessment. It also aims to strengthen relationships between key board members and enable access to benchmarking information from around the UK and internationally where relevant. The Programme was launched with its first cohort in January 2012.

Following feedback from our joint SLM conference with the HFMA in May 2011, we held a series of webinars about SLM. The first focused on service-line reporting and speakers from two foundation trusts highlighted the importance of having timely and robust quality and financial information available at service-line level. The webinar attracted more than 100 participants. The second focused on the cultural change aspects of SLM and explored examples of how organisations have been working to achieve this.

We once again teamed up with the HFMA to deliver an SLM conference, which saw speakers from a range of organisations promote the benefits of SLM. This year's conference covered key SLM topics and highlighted the importance and benefits of adopting an SLM approach.

The implementation of a service-line structure

Northumbria Healthcare NHS Foundation Trust has been operating within a service-line management (SLM) structure for some time. The trust is organised into five business units with a Business Unit Director (BUD) heading each one, with one BUD GP leading community services. The BUD role is held by a consultant. Half of each BUD's time is spent on the management role and half on clinical commitments to ensure they remain connected to their respective service areas.

Each BUD works in partnership with a divisional director and lead nurse with HR, finance and information managers providing dedicated support. The BUDs are held to account by the board and are operationally responsible for all aspects of service delivery. They are integral to the Cost Improvement Plan (CIP) process as they lead the planning on behalf of the business unit and manage the process to ensure subsequent delivery to plan and timescale. The trust understands that in order to achieve sustainable service transformation clinicians need to be fully engaged and have an active leadership role in the business.

The benefits of this approach are:

- clinicians have a better understanding of the organisation and consequently feel more involved;
- any potential negative impact on quality and safety is considered at the CIP planning stage, with these schemes ruled out early;
- clinicians understand their services and know what can and what cannot be achieved safely; and
- the BUDs welcome the devolved responsibility and feel as though they can influence the process.

The trust runs a Clinical Policy Group that meets monthly. All CIP schemes are discussed at this meeting on a quarterly basis, with the focus on the quality impact of CIPs. The BUDs present the CIP plans on behalf of their business unit. There is a healthy degree of challenge from other BUDs, lead clinicians and external parties (GP representatives are also on the group). Progress against CIP delivery is reported to the group during the year. The meeting provides a mix of clinical support and challenge as the BUDs are openly held to account and challenged by clinical colleagues.

The role of governors

The Health and Social Care Act 2012 gives greater responsibilities to governors of foundation trusts to hold their boards to account. This expanded role means many governors will need significant training to be able to carry out these duties. We worked closely with the Department of Health (DH) on the process of developing a tender for the proposed structure for national governor training. We also sat on the steering group which evaluated returned tenders and ultimately supported DH in selecting the most appropriate provider.

We also supported governor training by speaking at the joint Foundation Trust Network/Foundation Trust Governors' Association governor training days throughout 2011.

In July 2011, we published the results of our governor survey. We last carried out a survey of NHS foundation trust governors in 2007 and findings from the 2011 report suggest that there has been significant progress in many areas of a governor's role since then. In relation to the increased responsibilities for governors as set out within the Health and Social Care Act 2012, nearly two thirds of governors surveyed said they would be fully prepared to take on greater responsibility but stated that improvements would need to be made in relation to directors taking more account of governors' views and improved training and development. We have taken on board the various ideas for additional training that were suggested within the survey when supporting the DH in its training tender process mentioned above.

Contributing to and influencing the development of an affordable, devolved system of health care provision

Our vision is for an affordable, devolved health care system in which patients and service users receive excellent care and taxpayers achieve value for money, through autonomous, well-led, financially robust providers that respond to commissioners' requirements and patients' and service users' choices. We have continued to work towards this vision of the future through partnership working and careful policy planning based on robust research.

Overview of 2011/12

- We have been developing a Foundation Trust Oversight Framework that will apply to foundation trusts from the day that our licensing of foundation trusts begins during 2013. Foundation trusts will no longer be bound by their current terms of authorisation but by a licence, and our existing *Compliance Framework* will cease to exist.

- We have supported the National Quality Board (NQB) on developing the second phase of a key report focusing on quality during the NHS modernisation process. *Maintaining and improving quality during the transition: safety, effectiveness, experience* emphasises the importance of quality and highlights practical steps to safeguard quality at a time of change and transition. We continue to work with the NQB on early warnings in the post-Health and Social Care Act system.

- We consulted on and developed our *Compliance Framework* for 2012/13. It was agreed that we would not fundamentally rethink our regulatory approach but instead continue with the 2011/12 framework with changes where necessary to reflect national policy priorities. With that in mind, we have made slight revisions to our regime covering annual board statements and how we measure governance and financial risk.

Health Select Committee
Monitor is directly accountable to Parliament and we are required to give evidence to the Health Select Committee as part of the Committee's annual accountability hearings. Monitor's Chair, David Bennett, Stephen Hay (Chief Operating Officer) and Adrian Masters (Director of Strategy) gave oral evidence to the Health Select Committee in July 2011, which followed our written submission to the Committee.

During the hearing we highlighted our concerns over the foundation trust pipeline and the work we had undertaken with the Department of Health, the Foundation Trust Network and strategic health authorities to help address these concerns and ensure that applicant trusts are adequately developed and prepared to undergo our assessment process. We were clear that our assessment process would remain rigorous and robust and that authorisation standards would not be lowered in order to assist remaining NHS trusts.

Our increased focus on financial risk was also discussed, as was our working relationship with the CQC and the need for comprehensive foundation trust governor development.

The Committee's report on the hearing acknowledged the challenging context in which we had been operating and in which we would continue to operate. It was

broadly very positive about our work and this is testament to staff at Monitor working hard and with professionalism and tenacity, often in very challenging circumstances.

With regard to the CQC, the Committee concluded that the existence of two regulators – Monitor and the CQC – "creates a significant risk of cost and process duplication".[3] The report goes on to stress the importance of clearly defining the roles, scope and functions of each organisation and the need for intrinsic partnership working. We have continued to strengthen our relationship with the CQC throughout 2011/12 as the Health and Social Care Bill progressed through Parliament and we are now focused on ensuring that our roles, functions and responsibilities are communicated effectively and understood in the context of a new health care landscape.

In June 2011, David Bennett and former Monitor Chief Economist Sonia Brown gave evidence to the Health and Social Care Bill Committee. The evidence focused on the proposed changes to our role.

[3] House of Commons Health Committee, Annual accountability hearing with Monitor, Tenth Report of Session 2010-12, p 23.

Continuing to improve as a high-performing organisation

Monitor has a reputation for being a professional, rigorous and focused regulator and aims to be a high performing organisation. We are committed to recruiting excellent staff and to managing our resources in the most effective and efficient way to support our organisational goals.

Overview of 2011/12

- Work has continued on the rollout of our Knowledge Management Strategy and the implementation of our central information repository, 'connect2'. Building on the work completed in 2010/11 to support the assessment team, a new system for the compliance team was implemented in August. This system substantially simplifies and speeds up the issuing, receipt and processing of templates from foundation trusts. All monitoring data is now captured in a central database to automate the production of quarterly board and trust packs and provide a single repository of foundation trust data for analysis and reporting. The benefits are faster and more consistent operation of the quarterly monitoring and Annual Plan Review processes.

  Good progress has been made in migrating the other directorates onto the new system and we have implemented a number of capabilities in connect2 to support the Transition programme.

- In December 2011, we produced a report for Defra which included a statement on our proposals and policies for adapting to climate change and an assessment of the current and predicted impact of climate change in relation to our functions.

- We have re-launched our Corporate and Social Responsibility (CSR) programme and a CSR Committee meets once every two months. Over the course of the year staff members volunteered to take part in a young person's mentoring scheme and helped to decorate a venue for a children's Christmas party. Copies of the Big Issue are bought weekly from funds donated by Monitor staff.

- Under the Equality Act 2010, Monitor has both general and specific duties. In summary, the general duty requires Monitor, in exercising its functions, to have due regard to the need to eliminate discrimination, advance equality of opportunity between people sharing relevant protected characteristics and those who do not, and foster good relations between those having such a characteristic and those who do not. The final specific duty – to publish information to demonstrate compliance with the general equality duty – came into force on 31 January 2012. The second specific duty is to set equality objectives by 6 April 2012. Monitor's website outlines the actions taken by Monitor in compliance with these legal duties.

- Monitor's annual staff survey was carried out in July 2011 and results showed improvements in line management practices and internal communications. The senior management team has focused on the outputs of the survey throughout the year, especially in light of the level and speed of change the organisation is experiencing.

- Monitor's website continues to be a valuable source of information for our stakeholders and in our 2011 survey of NHS stakeholders, 86% of respondents said they found it to be very or fairly useful. Overall, 95% of stakeholders think we keep them very or fairly well informed about our work.

A time of transition
Throughout 2011/12, we have been continuing with our foundation trust regulator role, but have also set up a 50 plus-strong transition team to support our new role as sector regulator from 2013. This has been challenging as we now operate over two sites, staff numbers increased by 22% during the 2011/12 financial year, and we have been planning and developing our vision of what Monitor as sector regulator might look like. This has taken place in a fast moving, changeable and uncertain context, particularly given the legislative passage of the Government's proposals. Despite this, staff at Monitor have remained professional, committed and focused on both business as usual and transition work towards our new sector role.

Leadership and Board development
Following the Government's decision to pause the passage of the Health and Social Care Bill, Monitor's Board decided not to appoint to the role of permanent Chief Executive in a context where Monitor's future role and remit were uncertain. Accordingly, David Bennett continued in his role as interim Chief Executive alongside his role as Chair.

Monitor's Board has seen some changes this year with the departure of Chris Mellor on 31 March 2012 and Jude Goffe on 30 April 2012. Chris was Deputy Chair of the Board and also Chair of Monitor's Compliance Board Committee. He was also an active member of Monitor's other committees and attended many of our Board to Board meetings. Jude was Chair of Monitor's Audit and Risk Committee and a member of the Remuneration Committee. She had served on Monitor's Board since 2004 and left at the end of her second term.

The appointment of two new Non Executive Directors, Sigurd Reinton CBE and Keith Palmer OBE, was announced by the Secretary of State in January 2012. Sigurd joined us on 1 January 2012 while Keith took up his post on 1 April 2012, and both will serve a four-year term on the Board. Both have extensive experience in health care and will be key to supporting us in delivering our new core duty to protect and promote the interests of patients and service users and ensure that patients are at the heart of everything we do.

Resourcing change
With significant changes to Monitor's role, we have committed a considerable amount of time to planning for the transition to sector regulator – details of our comprehensive Transition programme and the work involved are on page 7. We established key teams, developed a number of workstreams and put governance arrangements in place. We planned and resourced various pieces of work and projects within the workstreams, recruiting internally for some posts while looking outside the organisation for specific skills and expertise aligned to our new functions.

The workload associated with the transition to our proposed new role has been considerable. We have continued to review and improve our working practices as this work has taken place and as regulation has become more complex with more foundation trusts being authorised and the challenging economic environment impacting on foundation trust performance.

We have ensured that staff have had opportunities to develop their skills and experience by becoming involved in the transition work alongside our 'business as usual' work in regulating NHS foundation trusts. This has been important for individual, professional and personal development, and has brought valuable expertise to the work we have been doing on the transition to our new role.

Supporting our community

In August 2011, Monitor set up a Corporate Social Responsibility (CSR) Committee in order to discuss and agree proposals for activities and initiatives which would result in Monitor having greater interaction with the local community. Since then, staff have been involved in a range of volunteering and fundraising initiatives and the organisation as a whole has supported the community through a work experience pilot.

The CSR Committee worked with Mosaic, a not-for-profit organisation set up to create opportunities for young people growing up in the country's most deprived communities, to enable Monitor staff to get involved in a school mentoring programme. Twelve members of staff volunteered to take part in the programme and acted as mentors to teenage boys at Westminster City School over a period of six months in order to help raise their aspirations and provide them with the life skills to achieve success.

Feedback from both staff and the teenagers involved was positive and the CSR Committee is planning to offer staff the opportunity to get involved in a similar mentoring scheme next year.

Sharan Kaur, Compliance Manager and CSR Committee Chair said: "It's been really encouraging that so many Monitor staff members have expressed an interest and taken part in the schemes the CSR Committee has initiated this year. As well as mentoring, staff raised over £2,000 for Monitor's 2011 nominated charity and volunteered at a Kids Company[4] event. We also linked up with East Potential, a social regeneration charity, to provide a work experience placement for an unemployed person who wanted to increase his employability by developing new skills.

"Monitor is committed to engaging with and supporting the local community and as the organisation increases in size, I hope more staff will become part of the CSR Committee, continue the great work we've done in 2011/12 and raise even more for our 2012 nominated charity, Westminster Mind, which supports local people with mental health problems."

Vision, mission, culture and values

As we have worked towards developing the core functions of our new role - how the extended and emerging organisation will look and how it will sit alongside Monitor's continuing functions - we have begun to think about the culture and values of Monitor in the future. Ongoing engagement of our staff in this process has been critical.

[4] Kids Company is an organisation that works therapeutically with vulnerable children and young people.

Developing staff
Monitor remains committed to developing staff at all levels across the organisation. Our knowledge sessions have proved popular again this year. The focus has been on economic regulation and speakers from sector regulators such as Ofgem and the Office of Rail Regulation have shared their knowledge and experiences with staff.

In April 2012, we held pilot sessions in what will be ongoing mandatory training for all staff on The Economics of NHS Reform.

We have undertaken a detailed analysis of the individual reasons for staff turnover this year via our exit interviews and concluded that the increase (see table below) is due to a range of factors including personal life choices and some excellent career progression opportunities that people have taken up following the development and experience they have gained at Monitor.

Monitor's staff profile

	Female	Male	Average age	Staff turnover	Black and ethnic minority representation
2011/12	55%	45%	36.6 years	21%	20.3%
2010/11	61%	39%	36.6 years	11.3%	16%
2009/10	57%	43%	36 years	12.4%	15%

Actions for 2011/12: operating a rigorous assessment process

Themes	Actions	Outcome
Maintain a high and consistent standard of assessment throughout the forthcoming increase in the number of assessments.	Provide Monitor's Board with high quality analysis and insight on each assessment to inform their decision making.	**Completed**
	Continue to review and communicate the financial scenarios used in the assessment process to take account of the more challenging financial environment and the next planning cycle.	**Completed**
	Continue to promote a proportionate and robust approach to quality governance within the assessment process, refining as appropriate.	**Completed**
	Continue to build on our strong working relationship with the Care Quality Commission, through the Memorandum of Understanding, to ensure their input on governance and quality performance issues is appropriately utilised in the assessment process.	**Ongoing** See page 11
	Continue to effectively communicate our assessment process (and any changes to it), including our quality governance approach, to all stakeholders through a range of communications channels.	**Completed**
	Communicate with non-foundation trusts to help them understand our regulatory approach and our wider programme of work both before and throughout the assessment process.	**Completed**
	Continue to ensure that the constitutions and all legal governance arrangements of applicant trusts are legally compliant and otherwise appropriate.	**Completed**
Work with the Department of Health to help it ensure high-quality applicants in the pipeline and ensure appropriate prior	Support the Department of Health in developing a realistic plan for putting forward high-quality applicants for NHS foundation trust status over the next three years so that all eligible acute, mental health, ambulance and community trusts have been assessed to meet the April 2014 deadline.	**Completed** See page 16

warning and phasing of trusts.		
Review the assessment process to ensure fitness for purpose.	Conduct a review of the assessment process to: identify efficiencies in the process; refine the quality governance approach; incorporate the relevant findings from the Mid Staffordshire NHS Foundation Trust Public Inquiry; and ensure that Monitor continues to assess each applicant in a timely fashion.	**Completed** See page 15
	Ensure that any changes to the assessment process take into account how any changes to legislation will affect the existing assessment function.	**Ongoing**
Ensure that Monitor has the capacity and capability to conduct timely assessments of applicant trusts, and proposed mergers and transactions, particularly as assessment team activity rises to meet plans for an all foundation trust sector.	Continue to review the structure of the assessment team and the executive and non-executive resources required to match capacity to the Department of Health's trajectory of applicants for 2011/12, starting assessments as soon as possible and not later than six months after the Secretary of State's referral.	**Completed**
	Develop a staffing plan for the assessment team, considering recruitment and retention, bearing in mind the time-limited nature of assessment.	**Completed**
	Ensure the provision of advice on legal issues relevant to applications for NHS foundation trust status from all aspirant trusts.	**Completed**
	Ensure the provision of legal advice for assessment, as required, to reflect changes proposed by the Health and Social Care Bill and any other relevant legislation.	**Completed**

Actions for 2011/12: operating a proportionate, risk-based regulatory regime

Themes	Actions	Outcome
Continue to develop, update and embed the *Compliance Framework* and other regulatory documentation to enable Monitor to identify and assess risks and take timely and effective action as part of our regulatory approach.	Publish a revised *Compliance Framework* (or equivalent) for 2012/13 to reflect a changing regulatory and economic environment and new regulatory arrangements following legislation.	**Completed** See page 38
	Review and update other compliance documentation and publications to ensure a comprehensive, relevant and effective regulatory approach, including the development of a compliance framework for community services.	**Partially completed** Foundation trusts providing community services will come under the existing Compliance Framework so a separate document has not been produced.
	Continue to implement and review foundation trust board statements to confirm robust reporting, monitoring and risk management arrangements relating to care quality, and take regulatory action if necessary where boards are unable to provide sufficient quality governance assurance.	**Completed**
	Increase the involvement of boards of governors in our regulatory activities in cases of potential and actual significant breach.	**Ongoing**
	Provide advice on the regulatory framework and public law considerations to ensure that all documentation, processes and decisions are legally compliant.	**Completed**
Continue to develop Monitor's processes, systems and capacity to meet the expected increase in the	Continue to recruit and retain high quality people with relevant skills and clear accountabilities.	**Completed**
	By applying the compliance resource model, ensure that each team has sufficient capacity when undertaking a regulatory review.	**Completed**

volume and complexity of compliance activity, in line with increased number of authorised foundation trusts and transactions, and reflecting the current economic context.	Prepare compliance systems and policies for the growth in number and range of NHS foundation trusts and for a potential increase of the number in financial difficulty and facing quality issues.	**Completed**
Ensure an effective range of approaches for developing solutions to regulatory issues.	Conduct a debrief exercise to develop improvements to the compliance regime for those trusts in particular difficulty.	**Partially completed** Work has begun on looking at wider regulatory options, turnaround solutions etc and wider configuration where no standalone solution exists.
	Build on and develop current networks of external advisers in finance, governance and clinical areas, including specialist governance firms that can advise on our approaches to intervention.	**Ongoing**
	Ensure the provision of appropriate legal support and advice on escalations and interventions, to ensure compliance by Monitor with public law and regulatory obligations.	**Completed**
Promote effective strategic planning by NHS foundation trusts to enable them to minimise breaches of authorisation and take action to mitigate risks.	Ensure that the annual plan process is as robust as possible to identify adequate information relating to foundation trusts' strategic planning and potential risks.	**Completed**
	Review foundation trusts' annual plans in order to assess financial and governance risk, including the risks posed by proposed commissioning reforms, and the quality of NHS foundation trust planning. Based on this, produce an overview report on the trends and risks facing the sector.	**Completed**
Continue to develop and	Reflect developments in quality accounts and quality governance into	**Completed** The Department of

assess annual reporting for NHS foundation trusts.	annual reporting.	Health brought forward its quality account proposals late, so we have incorporated next year's likely requirements as an option for reporting this year and quality governance is now required in all foundation trusts' annual governance statements.
	Revise financial reporting by NHS foundation trusts to reflect the outcomes of HM Treasury's alignment project, that is, consistency of reporting on plans, estimates and outturn.	**Ongoing**
Review compliance activities relating to major transactions and assess any relevant risks.	Refine our due diligence process and assess major investments, mergers, acquisitions and divestments, and other transactions with major risks, in line with guidance and advice from the Co-operation and Competition Panel. Continue to ensure that our approach is appropriate to the size and risk of the transaction and does not inhibit beneficial corporate actions or innovation.	**Completed** See page 32
	Conduct and publish a brief review of major transactions to highlight lessons learned from the process by both foundation trusts and Monitor.	**Completed**
Continue to work with existing and emerging external partners and stakeholders to support compliance activities.	Continue to embed and update the operational aspects of the Memorandum of Understanding and the close working practices agreed with the Care Quality Commission, with particular attention to co-ordinating intervention. This includes regular communication of actual or potential risks to terms of authorisation or registration, sharing of relevant information and co-ordination of regulatory activity.	**Completed**

	Continue to work with primary care trusts and strategic health authorities to support compliance activities.	**Completed**
	Continue to work with the Department of Health, HM Treasury and others on policy that is relevant to regulatory compliance, such as the *Operating Framework* and provider contracts, and capital and other financial arrangements for NHS foundation trusts, particularly those in financial difficulty.	**Ongoing**
	Work with partners to co-ordinate the implementation of recommendations from the Mid Staffordshire NHS Foundation Trust Public Inquiry.	**Not completed** The Inquiry has not yet published its recommendations although we continue to work more closely with the CQC and have introduced and continue to implement and embed the *Quality Governance Framework.*
	Deliver and implement a communications plan for engaging with GP pathfinder consortia and the transitional NHS Trust Development Authority.	**Ongoing** As we have been planning our new functions, engagement with GP consortia and the NHS Trust Development Authority has begun and as we have further clarity on our new role, we will develop a communications plan.
Continue to communicate Monitor's regulatory requirements.	Ensure information about Monitor's compliance approach - and best practice, lessons learned and case studies - are widely disseminated to existing, aspirant and applicant foundation trusts.	**Ongoing**
	Keep foundation trusts informed about regulatory developments, in particular the new *Quality Governance Framework* requirements.	**Completed**

Continue to develop compliance processes and capacity, in transition towards any future regulatory regime.	Prepare for changes in the role of compliance stemming from any legislation, including changes to the *Compliance Framework*, annual plan reporting, annual reporting requirements and quality monitoring.	**Ongoing**
	Develop a staffing plan for the compliance team, considering recruitment and retention, bearing in mind the potentially time-limited nature of our current compliance function as a result of proposed changes to the regulatory architecture.	**Not completed** Our compliance function will continue so this work was not necessary during 2011/12.
	Ensure the provision of legal advice for compliance, as required, to reflect changes proposed by the Health and Social Care Bill and any other relevant legislation.	**Completed**

Actions for 2011/12: promoting the development of well-led NHS foundation trusts

Themes	Actions	Outcome
Support boards of directors to lead improvements in value, quality and efficiency.	In partnership with the Foundation Trust Network, roll out, evaluate and, where necessary, revise the joint programme for chairs of NHS foundation trusts to help them better understand and exercise their role.	**Completed** See page 34
	Working with others, design and pilot a programme to support the development of the corporate role of NHS foundation trust medical directors.	**Not completed** In line with spending controls across all arm's-length bodies we did not carry out this work. The action will carry forward to 2012/13.
	Explore opportunities to work with others to develop programmes to support boards of directors in planning and delivering better value in health care, for example through lessons learned relating to cost improvement plans.	**Completed** See page 34
	Working with third parties, continue to improve and update existing programmes for non executive directors and directors of finance.	**Completed** See page 35
	In partnership with others, run a clinicians event on value in health care (improving quality delivered for each pound spent).	**Completed**
	In partnership with others, run events and provide materials to support boards of directors in improving quality governance.	**Completed**
	Continue to communicate NHS foundation trust board development initiatives, working with partners such as the Foundation Trust Network.	**Completed**
	Communicate to foundation trust boards best practice and lessons learned in integrating care after trusts have been involved in major transactions.	**Completed**

Support governors to understand and develop their capability and capacity with regard to current and future statutory responsibilities.	Consider extending the current Monitor guide for governors to further support governors in better understanding and exercising their statutory duties, roles and responsibilities and to highlight lessons learned.	**Not completed** In line with spending controls across all arm's-length bodies as well as the pause in the Bill, we did not carry out this work. The action will carry forward to 2012/13.
	As the Department of Health clarifies its approach, work with third parties to develop and support governor training.	**Ongoing** See page 36
	Consider publishing a best practice document on how boards of directors and boards of governors interact.	**Completed**
	Develop and implement a communications plan to help NHS foundation trust governors better understand and exercise their statutory powers, roles and responsibilities, highlighting lessons learned and development initiatives, working with partners such as the Foundation Trust Network.	**Not completed** This was dependent on the policy work having been completed. As stated above, the action will carry forward to 2012/13.
Stimulate foundation trusts to develop approaches to service-line management.	Working with partners, design, develop and pilot a programme to support trusts that have adopted service-line management in improving the effectiveness of implementation.	**Completed** See page 35
	Develop and publish a framework setting out the stages of service-line management implementation, supported by case studies. Subject to resource availability, consider conducting a survey to assess progress in the sector in implementing service-line management.	**Completed** See page 35
	Consider developing a self-assessment tool for foundation trusts, based on the framework developed as above.	**Completed** See page 35
	Identify and work with partners to run events to highlight lessons learned from the service-line management approach.	**Completed** See page 35

Actions for 2011/12: contributing to and influencing the development of an affordable, devolved system of health care provision

Themes	Actions	Outcome
Maintain strong strategic relationships with stakeholders, relating to both Monitor's current and proposed future business.	Build and maintain strong relationships with the Department of Health, Care Quality Commission, No. 10, HM Treasury, the shadow NHS Commissioning Board and other major health and social care stakeholders.	**Ongoing**
Contribute to and influence policy development relating to NHS foundation trusts, supported by economic analysis, and assess its implications.	Continue to contribute to the development of a coherent quality framework through our work with the National Quality Board.	**Completed** See page 38
	Continue to contribute to the discussion on responses to new tariff rules and other payment changes.	**Completed**
	Respond to the recommendations of the Mid Staffordshire NHS Foundation Trust Public Inquiry in relation to the regulatory regime for NHS foundation trusts.	**Not completed** The Inquiry has not yet published its recommendations.
	Help to shape the future information architecture for the NHS, working with the Department of Health, The Information Centre for Health and Social Care and others.	**Ongoing**
	Work with the Department of Health and the Co-operation and Competition Panel to address competition issues within the NHS foundation trust sector.	**Completed** See page 32
	Conduct a study to identify good practice in new service models resulting from co-ordination and integration between community, primary and secondary care.	**Not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Support the Department of Health in developing its arrangements for capital for NHS foundation trusts.	**Not completed** Due to the Health and Social Care Act 2012 not receiving Royal Assent until March 2012, this work has been delayed and will be completed later in 2012.

	Continue to support and contribute to the development of legislation in relation to NHS foundation trusts, including the Health and Social Care Bill.	**Completed**
	Communicate our response to the Mid Staffordshire NHS Foundation Trust Public Inquiry and any follow-up actions undertaken by Monitor.	**Not completed** The Inquiry has not yet published its recommendations.
	Ensure provision of relevant legal advice, as required, to support policy development and regulatory decisions.	**Completed**
Work with key stakeholders to set policies regarding provider regulation	Review and update the Memorandum of Understanding with the Care Quality Commission as necessary, to reflect conclusions from the Mid Staffordshire NHS Foundation Trust Public Inquiry and changes to regulatory regimes and practice, for example, further development of the Care Quality Commission's Quality and Risk Profiles.	**Partially completed** We have updated our Memorandum of Understanding with the CQC but it does not reflect conclusions from the Mid Staffordshire Public Inquiry as the Inquiry has not yet published its recommendations.
	Work with the Department of Health and the shadow NHS Commissioning Board to ensure future licensing and compliance arrangements, standard contract and the NHS *Operating Framework* (or equivalent) are properly aligned to support a balance between regulatory and contractual requirements, and the autonomy of NHS foundation trusts.	**Partially completed and ongoing**
Communicate with key stakeholders regarding Monitor's role and responsibilities	Continue to build awareness and understanding of the role of Monitor among MPs in England and improve their understanding of the accountability structure and regulatory framework in the devolved NHS.	**Ongoing** See page 38
	Ensure that Monitor remains an influential contributor to debates on the delivery of health care services.	**Ongoing**
	Continue to work closely with the Care Quality Commission in	**Ongoing**

	preparing joint communications that ensure clarity regarding our respective roles within the regulatory system.	

Actions for 2011/12: continuing to improve as a high-performing organisation

Themes	Actions	Outcome
Ensure that Monitor has the appropriate board level organisational and committee structures and processes in place to support our current and future business.	Ensure a smooth transition following the appointment of a new Chair and proposed appointment of other non executive directors from spring 2011.	**Completed** See page 41
	Ensure a smooth transition from interim Chief Executive arrangements once the post has been filled substantively.	**Not completed** A decision was taken not to recruit to the role of Chief Executive until there was further clarity on our new role.
	Plan for the move to new governance arrangements, which include a larger Monitor Board with an appropriate balance of executive and non executive directors.	**Ongoing**
Ensure that all staff remain committed to our culture, values and behaviours.	Continue to reinforce and embed Monitor's commitment to professionalism, respect, personal responsibility, recognition and collaboration at all levels of the organisation.	**Completed**
Ensure that Monitor has the appropriate structure, capabilities and resources to support its work.	Review the capacity, capability and functions of our assessment, compliance, policy, communications, legal and support services teams to ensure they are staffed appropriately for the proposed changes to the regulatory architecture from April 2012 and in response to the Arm's Length Bodies Business Support Services Transition Programme.	**Ongoing**
	Provide legally sound advice to the Board, senior management team and all operational areas and identify and manage all legal risks to ensure a legally compliant organisation.	**Completed**

Attract and recruit talented people into the organisation and retain current employees, supported by high-quality learning and development programmes.	Continue to recruit high-quality people with relevant skills and clear accountabilities into appropriate roles, exploring a range of initiatives such as secondment opportunities from other regulators or by setting up a development programme for internal applicants who wish to build their skill base.	**Completed** See page 43
	Continue to offer a range of personal and professional development opportunities, both internally and externally, to support staff to maximise their full potential.	**Completed** See page 43
	Ensure the retention of our high-performing staff through a range of retention initiatives, such as internal secondments.	**Completed** To date we have secured: Internal secondments 6 External secondments 2 Rotations 2
	Consider solutions to longer-term recruitment and retention issues bearing in mind the time-limited nature of our compliance and assessment functions.	**Ongoing** This is ongoing due to the change of timescales in relation to our new role as sector regulator.
Publish high quality information on the performance of Monitor and the NHS foundation trust sector.	Ensure that Monitor's website provides access to useful, transparent and timely information about Monitor and NHS foundation trusts.	**Completed**
	Respond with timely, accurate and helpful information to enquiries from the public and information requests from Parliamentarians.	**Completed**
	Ensure that all statutory communication requirements are met.	**Completed**
Work efficiently within Monitor's operating budget.	Continue to maintain robust internal financial control procedures to ensure that annual financial balance is achieved.	**Completed**

Provide efficient and value for money facilities to support an expanding organisation.	Continue to maintain a high quality and safe working environment that supports delivery of Monitor's functions, enhances staff performance and balances quality and cost, including energy efficiency.	**Completed**
Continue to develop an information and knowledge management culture, supported by relevant processes and information systems, to support teams in carrying out their current and future functions.	Continue to promote a knowledge management culture within Monitor to encourage the sharing of information and knowledge more widely, and improve access to information and the retention of corporate knowledge.	**Completed**
	Ensure the delivery of current knowledge implementation plans relating to: assessment; daily compliance activities; escalation-based compliance activities; and Monitor as a whole.	**Completed**
	Begin to prepare to support Monitor's proposed new functions and our information capability in delivering them.	**Ongoing**
Ensure that Monitor meets the legal obligations under the Equality Act 2010.	Increase staff and Board awareness of the need to take account of Monitor's general duty under the Equality Act 2010 when we carry out our functions.	**Completed** See page 40
Ensure clear communication to all staff throughout the transition to the proposed new economic regulator.	Ensure that all staff are kept informed about changing processes, and corporate and individual roles and functions throughout the transition to the new economic regulator.	**Ongoing** This is ongoing due to the Health and Social Care Act 2012 not receiving Royal Assent until March 2012. Individual roles and functions have not yet been fully developed.
	Implement Monitor's internal communications strategy in order to manage uncertainty in a fast-changing environment, and maintain 'business as usual'	**Completed**

	operations.	
	Understand and mitigate the impact on our current business functions and staff morale of staff resources being diverted to work on the development of our proposed future role as the economic regulator and the potential impact of the Arm's Length Bodies Business Support Services Transition Programme.	**Ongoing**
	Determine the process and timescales for moving staff to the proposed new functions in Monitor from April 2012.	**Not completed** Due to the Health and Social Care Act 2012 not receiving Royal Assent until March 2012, this work has been delayed as we did not take on our new functions in April 2012.

Management commentary

These accounts reflect the operations of the Independent Regulator of NHS Foundation Trusts (Monitor). Monitor is responsible for authorising, monitoring and regulating NHS foundation trusts and was established in January 2004 under the Health and Social Care (Community Health and Standards) Act 2003. The provisions of that Act were repealed on 1 March 2007 and re-enacted on that date in a consolidating Act, the National Health Service Act 2006. Monitor is accountable to Parliament and independent of Government.

In accordance with the provisions of Schedule 8 of the National Health Service Act 2006, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2012.

The Board

Dr David Bennett (Chairman)
Dr Bennett was appointed to Monitor's Board by the Secretary of State for Health, Andrew Lansley, with effect from 1 March 2011.

Dr Bennett has worked for some years in and around the public sector. Before joining Monitor he was the non-political Chief Policy Adviser to the then Prime Minister Tony Blair and Head of the Policy Directorate and the Strategy Unit in 10 Downing Street. He has also worked as an independent adviser to various NHS bodies. Before this, Dr Bennett was a senior partner at McKinsey & Co. In his 18 years with the firm, he served a wide range of companies in most industry sectors, but with a particular focus on regulated, technology-intensive industries.

Mr Chris Mellor (Deputy Chairman until 31 March 2012)
Mr Mellor left Monitor at the end of his second term of appointment on 31 March 2012.

Mr Mellor was Monitor's Deputy Chairman until 31 March 2012. He was also Chair of Monitor's Compliance Board Committee since its establishment in February 2010 until his departure from the Board. He was Chair of Monitor's Remuneration Committee, as well as a member of the Audit and Risk Committee, the Honours Committee and the Nominations Committee.

Mr Mellor was Non Executive Chairman of Northern Ireland Water Ltd. from March 2006 until March 2010 and Senior Independent Non Executive Director of Grontmij UK Ltd, the engineering consultancy from April 2004 until November 2010. He retired as Chief Executive of Anglian Water Group plc in March 2003, after 13 years with the company. Previously he was a Non Executive Director of Addenbrooke's NHS Trust between 1994 and 1998, where he was Chair of the Audit Committee. Mr Mellor was also a member of the Government's Advisory Committee on Business and the Environment.

Mr Stephen Thornton CBE (Non Executive Director and, from 1 April 2012, Deputy Chairman)
Mr Thornton has been a Non Executive Director since 2006; he became Monitor's Deputy Chairman on 1 April 2012. From 1 April 2012 he has been the Chair of Monitor's Compliance Board Committee and its Remuneration Committee. He is a member of Monitor's Nominations Committee and its Honours Committee.

Mr Thornton is Chief Executive of The Health Foundation, which is an independent health care charitable foundation working to improve the quality of health care in the UK. He is a member of the Department of Health's National Quality Board and an Honorary Fellow of the Royal College of Physicians.

He has held various senior executive NHS management and board positions over the last 15 years. He was Chief Executive of Cambridge & Huntingdon Health Authority from 1993 to 1997, and Chief Executive of the NHS Confederation from 1997 to 2001. He was a Commissioner on the board of the Healthcare Commission from February 2004 until July 2006.

Ms Jude Goffe (Non Executive Director until 7 May 2012)
Ms Goffe left Monitor at the end of her second term of appointment on 7 May 2012.

Until her departure on 7 May 2012, Ms Goffe was the Chair of Monitor's Audit and Risk Committee and a member of the Remuneration Committee.

A venture capital and corporate adviser, Ms Goffe is also a trustee of the King's Fund. She has previously served as a Non Executive Director of the Independent Television Commission and a Non Executive Director of Moorfields Eye Hospital NHS Trust from 1994 to 2004. Ms Goffe also chaired the Trust's Audit and Commercial Services Committees and was a member of its Remuneration Committee. Between 1984 and 1991 she was employed by the 3i Group plc in a number of investment roles, culminating in the position of Investment Director. Ms Goffe is a chartered accountant by profession.

Mr Keith Palmer OBE (Shadow Non Executive Director from 1 January 2012 until 31 March 2012, Non Executive Director from 1 April 2012)
Mr Palmer joined Monitor's Board as a Non Executive Director on 1 April 2012. From 1 January 2012 until 31 March 2012, he acted as a shadow Non Executive Director. He has been the Chair of Monitor's Audit and Risk Committee from 8 May 2012 and a member of the Remuneration Committee from 8 May 2012.

Mr Palmer is founder and Non Executive Chairman of InfraCo, a not-for-profit public private partnership that develops infrastructure in developing countries and of AgDevCo, a not-for-profit public private partnership that supports agricultural development in sub-Saharan Africa. He is also currently a Senior Associate of the Nuffield Trust.

His previous involvements in the health sector include Non Executive Director of Guy's and St Thomas' NHS Foundation Trust, Chairman of Barts and the London NHS Trust and Senior Associate of the King's Fund.

Other positions that he has previously held include Treasurer and Trustee of Cancer Research UK and Vice-Chairman of NM Rothschild merchant bank.

Mr Sigurd Reinton CBE (Non Executive Director from 1 January 2012)
Mr Reinton joined Monitor's Board as a Non Executive Director on 1 January 2012. He is a member of the Audit and Risk Committee and the Compliance Board Committee.

Mr Reinton is a director of NATS Holdings, which provides the air traffic control services for UK and North Atlantic airspace, and for the main UK airports. At NATS, he serves on the Audit and Nominations Committees and chairs the Stakeholder Council.

He was Chairman of the London Ambulance Service NHS Trust for ten years until 2009 and before that of Mayday University Hospitals NHS Trust. He was a member of the Board of the Ambulance Services Network and of the advisory board of The Foundation. He was a member of the Council of the NHS Confederation from 1998 to 2007 and was the lead for London. He was previously a Director (senior partner) at McKinsey & Company. Mr Reinton currently holds an additional Ministerial appointment with the National Air Traffic Services Ltd and has done since 2007.

The Senior Management Team (SMT)

Dr David Bennett (Interim Chief Executive)
As Interim Chief Executive David is responsible for the executive and operational management of Monitor; proposing and developing Monitor's strategy in consultation with the Board; ensuring that the objectives set out in the Business Plan are delivered and that decisions made by the Board are implemented. As Interim Chief Executive David is also Monitor's Interim Accounting Officer.

Stephen Hay (Chief Operating Officer)
Stephen is responsible for the regulatory operations of Monitor. This covers the assessment and authorisation of applicants for foundation trust status, monitoring the compliance of authorised NHS foundation trusts and managing intervention where required. He is also responsible for IT services.

Adrian Masters (Director of Strategy and Transition Director)
Adrian's role is to ensure that Monitor develops a regulatory policy that enables foundation trusts to innovate and deliver better health care for patients. This includes contributing to those areas of wider health care reform that impact on foundation trust performance. In 2011 Adrian took on the additional role of Transition Programme Director, overseeing Monitor's programme of transition activities in preparation for its role as sector regulator (set out in the Health and Social Care Act 2012).

Kate Moore (Director of Legal Services)
Kate provides legal advice to the Board and the SMT on delivering Monitor's functions within the powers laid down in the National Health Service Act 2006. This includes providing input into the legal aspects of the application, monitoring and intervention processes and ensuring that Monitor is legally compliant in all of its operations.

Janet Polson (Director of Human Resources and Corporate Services)
Janet is responsible for providing a comprehensive human resources (HR) function within Monitor. This includes HR operations, resourcing, organisational development and people development. Janet advises the Senior Management Team on adopting best HR policies and practices; she is also responsible for overseeing the provision of the back office corporate support services.

Sue Meeson (Director of Public Affairs and Communications)
Sue leads Monitor's communications work, ensuring that it supports the business strategy and acts as an enabler in the achievement of business objectives. Sue advises the Board and SMT on communications strategy and tactics as well as leading an integrated programme to build understanding of Monitor's role among key stakeholders

Management report

Employment
A number of employment policies have been developed and Monitor will continue to enhance and develop all aspects of staff employment arrangements. The policies have been developed to ensure compliance with the law, embrace good practice and address diversity. The organisation is committed to equal opportunities. It is opposed to all forms of discrimination, whether intended or unintended.

Staff survey
Monitor continues to value and act upon feedback from its staff. An all-staff survey was carried out in July 2011 in which a total of 93 staff provided feedback. This represented 88% of all eligible staff in post at the time of the survey. Scores remained high across all factors in comparison to prior year surveys, with particular improvement in scores relating to people and line management. In addition to the annual staff survey Monitor also carries out a quarterly temperature check to measure ongoing progress in implementing the culture, values and behaviours framework. Staff are asked to rate how well the organisation demonstrated each of the values on a five point scale and comment on how these values are demonstrated. As part of the temperature check staff are also asked to indicate their level of agreement with two statements. The results averaged across the four surveys in 2011/12 were:

- “Monitor, as an organisation, is a good place to work” - agree to completely agree: 90%
- “I am currently satisfied working at Monitor” - agree to completely agree: 76%

Sickness absence
The average time taken as sick leave by Monitor employees in 2011/12 was 2.7 days (2010/11: 3 days).

Environmental impact
Monitor remains committed to improving its environmental efficiency. We have an Environmental Management Policy to ensure our operations have a minimum impact on the environment.

Pension liabilities
The treatment of pension liabilities is disclosed in note 1 to the financial statements.

Health and safety
Monitor complies with all relevant legislation concerning health and safety at work and is committed to ensuring that safe working conditions are provided for employees, contract staff and visitors.

Statement of payment practices
Unless the amounts charged are considered to be incorrect, Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2012. In March 2010 the Government introduced a five-day payment target for all central government departments, with the expectation that arm's-length bodies would also put plans in place to pay within five days. Monitor supports this objective, but as a small organisation with a finance team of two full-time and one part-time member of staff, it is not possible to achieve, as performance from month to month is significantly affected by the working patterns of the individuals processing invoices. However, we are committed to striving to meet a 10-day payment target and the outturn against this target for the year was as follows.

	Number		Value	
	2011/12	**2010/11**	**2011/12**	**2010/11**
Total number of invoices	3,632	3,188	£11.2m	£8.5m
Invoices meeting target	3,421	2,700	£8.3m	£6.1m
Percentage meeting target	94%	85%	74%	72%

Register of interests
A register of interests of Board members is maintained by the Secretary to the Board and is available on Monitor's website.

Management of information risk and personal data related incidents
Monitor seeks to minimise the risk of a serious untoward incident arising from the misuse of personal or sensitive data. To this end, Monitor has an Information Risk Policy and Information Charter to identify and manage Monitor's exposure to risk in relation to any information it compiles or stores. There were no incidents of personal data being lost or stolen in 2011/12, reportable to the Information Commissioner's Office or otherwise, or in any previous years of Monitor's operations.

Audit
The auditor of Monitor is the Comptroller and Auditor General. Details of the audit fee for the year ended 31 March 2012 are disclosed in note 4 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts for the year ended 31 March 2012, the fee for which is £73,200.

Accounting Officer's disclosure to the Auditors
So far as the Accounting Officer is aware, there is no relevant audit information of which Monitor's auditors are unaware. The Accounting Officer has taken all steps necessary to make himself aware of any relevant audit information and to establish that Monitor's auditors are aware of this information.

Sustainability report

GREENHOUSE GAS EMISSIONS			
		2011/12	**2010/11**
Non- financial indicators (tCO_2e)	Total gross emissions for Scope 2	235	215
	Total net emissions for Scope 2	235	215
	Total gross emissions for Scope 3	21*	18*
Related energy consumption (KWh)	Electricity: non-renewable	308,666	295,505
	Gas	367,241	295,191
Financial indicators (£'000s)	Expenditure on energy	40	35
	Expenditure on official business travel	101	91

*This is the total of all measurable emissions. Monitor staff may claim for taxis when travelling on business but identifying the emissions from these has not been possible due to data limitations.

Monitor occupies three floors of a multi-tenanted building at Matthew Parker Street, and during 2011/12 has taken on space at Wellington House. The figures contained in this table just represent the Matthew Parker Street site. Wellington House is a Department of Health owned property and, as such, the sustainability figures for the space Monitor occupies will be reported in the Department's annual report.

The gas meter in Matthew Parker Street is for the whole building, so Monitor has taken a proportion of total usage based on our percentage floor area, which is how we are charged. As such, we have little direct control over our gas usage figures. However, we work closely with the managing agent to minimise heating costs and, thereby, gas consumption. The building is only heated during core office hours and not at all during weekends.

Monitor set a target for 2011/12 of maintaining electricity consumption, in terms of KWh per full time equivalent employee (FTE), at the same level as in 2010/11 (2,483). In fact, KWh per FTE for 2011/12 is 2,017, which has dropped since 2010/11 and is the third consecutive year in which this measure has decreased.

This decrease was achieved because of increased staff awareness, in terms of switching off computers and lights when not in use, and the introduction of more energy efficient IT, such as thin client computers for users and the replacement of physical servers for "virtualised" servers. It was also helped by a sharp increase in staff numbers, thereby reducing the consumption:staff ratio.

As the Matthew Parker Street site is now almost fully occupied, Monitor expects savings on electricity consumption to plateau over 2012/13. There will also be some turbulence in numbers moving to/from Wellington House in preparation for a permanent solution regarding premises.

WASTE				
			2011/12	**2010/11**
Non-financial indicators (t)	**Total waste**		**27**	**21**
	Non hazardous waste	Landfill	10.3	8
		Reused/recycled	16.7	13
Financial indicators (£'000s)	**Total disposal cost**		**11**	**10**
	Non hazardous waste	Landfill	7	7
		Reused/recycled	4	3

Landfill waste costs are paid by the landlord and Monitor has taken a proportion of the total based on our percentage floor area, which is how we are charged. Monitor cannot control these costs directly but has its own initiatives in place to reduce landfill waste, such as recycling schemes for the following items: printer toners, mobile phones, paper, cardboard, light bulbs, plastics, batteries and tin cans.

Again, overall volumes of waste per FTE compares favourably with the benchmark set down by the private sector.

WATER				
			2011/12	**2010/11**
Non- Financial indicators (m^3)	Water consumption	Supplied	1,530	1,229
Financial indicators (£'000s)	Water supply costs		2	3

The water meter is for the whole building, so Monitor has taken a proportion of total usage based on our percentage floor area, which is how we are charged. As such we have little direct control over how much water we consume, but we have schemes in place to minimise staff water consumption, such as low volume flush toilets, and high levels of maintenance which means that leaking pipes or dripping taps are attended to quickly. It is unsurprising that, with significantly increased staff numbers, the water usage has increased since 2010/11.

Financial position

Monitor's net expenditure for the year was £15,538,000 (2010-11: £14,771,000). Staff costs represent 90% of net expenditure at £13,914,000 (2010-11: £10,712,000). Other operating costs include property, consulting and office expenses.

Grant-in-aid of £15,700,000 was received during the year of which £197,000 was applied to the purchase of fixed assets. Net assets at 31 March 2012 were £1,579,000 (31 March 2011: £1,417,000). In 2011/12 Monitor recharged all expenditure in relation to preparing for the transition to our new functions, as detailed in the Health and Social Care Act 2012, to the Department of Health, this totalled £7,744,000, of which £170,000 was applied to the purchase of fixed assets.

A comprehensive review of Monitor's activities and performance against business objectives during the year is set out on pages 3–59 of this report.

Dr David Bennett
Chair and Interim Chief Executive
3 July 2012

Annual governance statement 2011/12

Introduction
In managing the affairs of the organisation, the Board of Monitor is committed to achieving high standards of integrity, ethics and professionalism across all of our areas of activity. As a fundamental part of this commitment, we support and adopt the highest standards of corporate governance within the statutory framework.

Board of Monitor
Board composition
From July 2010 until January 2012, the Board had four members: a Chairman and three Non Executive Directors. Sigurd Reinton joined the Board as a Non Executive Director on 1 January 2012, bringing the Board to its full complement of four non executive directors.

The National Health Service Act 2006 states that the regulator is to consist of a number of members (but not more than five) appointed by the Secretary of State. One of the members must be appointed as Chairman and another as Deputy Chairman. No individual or group of individuals dominates the Board's decision making. Collectively, the Non Executive Directors bring a valuable range of experience and expertise as they all currently occupy, or have occupied, senior positions in the health care sector, in industry and in public life.

While the members of Monitor's Senior Management Team (SMT) are not members of the Board, they attend Board meetings as a matter of routine and make presentations on pertinent matters arising from their respective directorates.

The role of the Board
The Board has responsibility for the overall management and performance of the organisation and the approval of its long-term objectives. It is responsible for ensuring that any necessary action is taken to ensure that Monitor's objectives are met.

The Chairman
The Chairman of the Board is appointed by the Secretary of State for Health.

David Bennett has been Chairman since 1 March 2011.

The role of the Chairman of the Board is to:

1. lead the Board;
2. ensure that it has the information and advice needed to discharge its statutory duties;
3. ensure that the Board adheres to high standards of corporate governance; and
4. be the public face of Monitor, leading its influencing and public activities.

David Bennett was appointed Interim Chief Executive on 1 March 2010; he continues in this role until the appointment of a permanent Chief Executive.

The role of the Chief Executive is to:

1. take ultimate responsibility for the delivery of the agreed Business Plan within the budget allocated by the Department of Health;

2. ensure that Monitor's business processes and internal management conform to the policies and standards set by the Board; and
3. ensure that Monitor's governance standards and processes are not breached.

The non executive directors

Independence

Monitor's non executive directors are independent of management and have no cross directorships or significant links which could materially interfere with the exercise of their independent judgements. Arrangements for the handling of any possible conflicts of interest are set out in Monitor's *Rules of Procedure*.

Terms of appointment

Following his initial term of three years, Chris Mellor was reappointed for a further four years on 10 May 2007. In light of the level of uncertainty surrounding the passage of the Health and Social Care Bill, his second term of appointment was extended to last until 31 March 2012, at which point he left Monitor. Jude Goffe started her second four year term of appointment on 8 May 2008. She left Monitor on 7 May 2012. Stephen Thornton CBE was reappointed for a second four year term of appointment on 1 October 2009. Sigurd Reinton was appointed to the Board from 1 January 2012. Keith Palmer began his term of appointment on 1 April 2012. Both were appointed for a term of four years.

Board members' terms and conditions of appointment are available on request from the Secretary to the Board.

Deputy Chairman and Senior Independent Director

Chris Mellor occupied the positions of Deputy Chairman and Senior Independent Director from 4 May 2010 until his departure from the Board on 31 March 2012. Stephen Thornton took on these roles from 1 April 2012.

The principal responsibilities of Monitor's Senior Independent Director are to:

1. act as a conduit to the Board for the communication of stakeholder concerns when other channels of communication are inappropriate;
2. ensure that the performance evaluation of the Chairman is effectively conducted; and
3. chair six-monthly meetings of the non executive directors without the SMT or the Chairman being present.

How the Board operates

Monitor was established by the Health and Social Care (Community Health and Standards) Act 2003. This act was repealed on 1 March 2007 and re-enacted on that date in a consolidated act, the National Health Service Act 2006 (the Act).

In exercise of the powers under paragraph 6(1) of Schedule 8 to the Act, Monitor made the *Rules of Procedure* to establish a Board and to regulate its procedure and that of its committees. The *Rules of Procedure* are published on Monitor's website.

Reserved and delegated authorities

The Board has a formal schedule of matters reserved to it for decision (Annex C to Monitor's *Rules of Procedure*). It includes:

1. definition of Monitor's strategic objectives;
2. approval of Monitor's corporate and business plans;
3. approval of all significant expenditure (>£500,000);

4. approval of Monitor's policies and procedures for the management of risk;
5. approval of variations to, and development of, Monitor's *Compliance Framework*;
6. decisions on applications for NHS foundation trust status;
7. approval of the use of Monitor's statutory powers of intervention; and
8. approval of the *Prudential Borrowing Code* for NHS foundation trusts.

Information flow
Board members are given appropriate documentation in advance of each Board and Committee meeting. In addition to formal Board meetings, the interim Chief Executive and Chief Operating Officer maintain regular contact with all the non executive directors and hold informal meetings with them to discuss issues affecting Monitor.

At points throughout 2011/12 Board members considered the quality of information provided to them for each Board meeting. Whilst they felt that consideration should be given to the manner in which information could be presented to the Board (for example, how long Board reports should be and what issues they should cover), Board members considered that the quality of the information they received was appropriate.

Independent professional advice
In addition to advice from Monitor's in-house legal and regulatory Directorates, the Board may request independent and external professional advice on any matter relating to the discharge of its duties. The costs of any such advice are met by Monitor, subject to the agreement per the memorandum of understanding between Monitor and the Department of Health as to funding for unforeseen circumstances that may arise during a financial year.

Board members are provided with sufficient information to ensure that they are kept fully informed on issues arising which affect Monitor.

Secretary to the Board
The Secretary to the Board is responsible for:
1. advising the Board on all corporate governance matters;
2. ensuring that Board procedures are followed;
3. ensuring good information flow between the Board and its Committees; and
4. facilitating induction programmes for non executive directors.

Any questions that stakeholders may have on corporate governance matters should be addressed to the Secretary to the Board at Monitor's office address.

Board meetings and attendance
The attendance of the Chairman, individual non executive directors and SMT at Board and Committee meetings during 2011/12 was as follows:

Name	**Board** Max. 12	**Audit and Risk Committee** Max 5	**Compliance Board Committee** Max. 12	**Honours Committee** Max. 2	**Controls Committee** Max. 19	**Nominations Committee** Max. 19
David Bennett	12	5	12	2	19	2
Jude	11	5	n/a	n/a	n/a	n/a

Goffe*						
Chris Mellor**	11	5	12	2	18	2
Keith Palmer***	3	n/a	n/a	n/a	n/a	n/a
Sigurd Reinton****	4	1	2	n/a	n/a	n/a
Stephen Thornton	12	n/a	11	1	n/a	n/a
Stephen Hay	11	4	11	2	15	n/a
Adrian Masters	12	3	9	2	18	n/a
Kate Moore	10	n/a	11	n/a	n/a	n/a
Sue Meeson	11	n/a	12	n/a	n/a	n/a
Janet Polson	n/a	n/a	n/a	n/a	13	1

*Jude Goffe left Monitor on 7 May 2012

**Chris Mellor left Monitor on 31 March 2012

***Keith Palmer joined Monitor as a Non Executive Director on 1 April 2012, from 1 January 2012 until 31 March 2012, he acted as a shadow Non Executive Director

****Sigurd Reinton joined Monitor on 1 January 2012

There were no meetings of the Remuneration Committee in 2011/12.

Board effectiveness

Induction

On joining the Board, non executive directors are given background information describing Monitor and its activities. Meetings with leaders of the core business areas are also arranged.

Sigurd Reinton and Keith Palmer, both of whom joined the Board early in 2012, received detailed induction information about Monitor, its structure, operations and corporate governance. Meetings were arranged with members of the SMT and other key senior members of staff. A visit to an NHS foundation trust was also arranged.

Performance evaluation

The Board sets objectives for both the Chairman and the Interim Chief Executive. The Chairman sets objectives for individual Board members.

In 2011 the Board met informally to discuss how individual Board members should be appraised in the future.

The Interim Chief Executive sets objectives for SMT against the objectives set for the Board and in relation to the delivery of the business plan for 2011/12.

Board Committees
The terms of reference of all the Committees are reviewed on a regular basis (at least annually) by the Secretary to the Board and by the Board as appropriate. Changes have been made to Committee Terms of Reference and the *Rules of Procedure* were reviewed in full in 2011/12.

Audit and Risk Committee
Members: until 8 May 2012: Jude Goffe (Chair of the Committee), Chris Mellor, Sigurd Reinton (joined the Committee on 1 February 2012) and Marian Watson (independent member).
From 8 May 2012: Keith Palmer (Chair of the Committee), Sigurd Reinton and Marian Watson (independent member) until June 2012.

The Committee consists solely of independent members, two of whom are Monitor non executive directors, all of whom have extensive financial experience in large organisations. Marian Watson was appointed to the Committee during 2008/09 as a non-voting full member involved in all aspects of the Committee's work; she was re-appointed in 2010/11. She has a special responsibility to ensure that there is an appropriate level of independent challenge to the assessment of risk and to the response of Monitor's SMT to external and internal audit. She resigned from the Committee in June 2012. The Committee's membership will be reviewed by the Board in July 2012.

At the invitation of the Committee, the Interim Chief Executive (in his capacity as Monitor's Accounting Officer); the Chief Operating Officer; the Director of Strategy; the Finance and Procurement Manager; the Head of Internal Audit (KPMG); and the external auditor (NAO) attend meetings.

The Secretary to the Board attends Audit and Risk Committee meetings and acts as Secretary to the Committee. The Committee met five times in the 2011/12 financial year. There have been no occasions on which either the internal auditor or external auditor have requested a private session with the Committee. All non executive directors have access to the minutes of all the Committee's meetings. A report is presented to the Board by the Chair of the Committee following each Audit and Risk Committee meeting.

Key duties of the Committee include:

1. appointment and management of the relationship with the internal auditors;
2. commissioning and receipt of reports from the internal auditors on the adequacy of Monitor's internal control systems;
3. consideration of all relevant reports from the Comptroller and Auditor General, Monitor's external auditor, including reports on Monitor's accounts, achievement of value for money and the responses to any management letters issued by them; and
4. in depth review of Monitor's risk profile and report to the Board on the management and mitigation of current and emerging risks.

For the 2011/12 financial year, the internal auditors undertook the following reviews as part of the plan approved by the Audit and Risk Committee:

a) Financial Systems;
b) Knowledge Management;
c) Human Resources;
d) Compliance and Intervention;

e) Transition Plan (Phase 1);
f) Transition Plan and Capabilities (Phase 2); and
g) Transition Delivery Planning (Phase 3).

Nominations Committee
Members: until 1 April 2012: David Bennett (Chair of the Committee), Chris Mellor.
From 1 April 2012: David Bennett (Chair of the Committee), Stephen Thornton.
Janet Polson (Director of Human Resources and Corporate Services) normally attends meetings at the invitation of the Committee.

Upon notification of a forthcoming vacancy, the Committee's role is to identify and make recommendations to the Secretary of State for Health on the appointment of non executive directors to Monitor's Board.

The Committee met twice in 2011/12 to discuss the recruitment of non executive directors to Monitor's Board.

Remuneration Committee
Members: until 1 April 2012: Jude Goffe and Chris Mellor (Chair of the Committee).
From 1 April 2012: Keith Palmer and Stephen Thornton (Chair of the Committee).

Details of the Remuneration Committee and its policies, together with the directors' remuneration and emoluments are set out on pages 83-86.

Compliance Board Committee
Members: Two non executive Board members, which may include the Chair (until 1 April 2012 Christopher Mellor and Stephen Thornton, from 1 April 2012 Sigurd Reinton and Stephen Thornton) and Stephen Hay (Chief Operating Officer), Adrian Masters (Director of Strategy and Transition Director), Kate Moore (Director of Legal Services), Sue Meeson (Director of Public Affairs and Communications), Merav Dover (Compliance Director), and Richard Guest (Former Mergers and Acquisitions and Restructuring Director).

The Committee was established in February 2010 to report to Monitor's Board following consideration of individual cases of potential significant breaches of an NHS foundation trust's terms of authorisation and assessment of the risk of significant transactions involving NHS foundation trusts.

Honours Committee
Members: until 1 April 2012: David Bennett (Chair of the Committee), Christopher Mellor and Stephen Thornton.
From 1 April 2012: David Bennett (Chair of the Committee), Sigurd Reinton and Stephen Thornton.

The Committee meets to consider nominations made by NHS foundation trusts for Honours to be conferred in the Queen's New Year and Birthday lists.

Controls Committee
Members: until 1 April 2012: David Bennett (Chair of the Committee), Chris Mellor, Stephen Hay (Chief Operating Officer) and Adrian Masters (Director of Strategy and Transition Director).

From 1 April 2012: David Bennett (Chair of the Committee), Stephen Hay (Chief Operating Officer) and Adrian Masters (Director of Strategy and Transition Director).

The Committee was established in June 2011 to approve expenditure on activities relating to the establishment of Monitor's new functions within the framework of delegated efficiency controls set out by the Department of Health. The Committee also approves expenditure on external recruitment activities for Monitor's activities relating to both its business as usual and its transition activities.

Attendance at Board Committee meetings is shown on page 71.

Executive committees
Members of the SMT met regularly from April 2011 to March 2012 as a Management Committee, a Strategy Committee and a Transition Committee. The Transition Committee was established in July 2011. Each Committee generally meets monthly (with the exception of August). The Strategy Committee has an additional meeting each quarter to discuss risk. The Compliance Executive Committee with SMT membership also meets on a weekly basis, to consider operational compliance issues and to refer cases of potential significant breach and significant transactions to the Compliance Board Committee.

Executive Committee meetings and attendance
The attendance of SMT members at executive committee meetings during 2011/12 is as follows:

Name	**Management Committee** (Max 12)	**Strategy Committee** (Max 15)	**Transition Committee** (Max 12)
David Bennett	n/a	12	12
Stephen Hay	11	11	12
Adrian Masters	11	14	11
Kate Moore	9	13	10
Sue Meeson	12	14	11
Janet Polson	12	n/a	11

SMT attendance at meetings of Monitor's Board and its committees is shown on page 71.

External directorships for SMT members
Subject to certain conditions, and unless otherwise determined by the Board, SMT members are permitted to accept one appointment as a non executive director.

With effect from 1 May 2009 Stephen Hay was appointed non executive director and Chair of the Audit and Risk Committee at the Department for Communities and Local Government, for which the remuneration is £10,000 per annum.

Kate Moore is Chair of Governors at a primary school. The position is unpaid.

Relationships with stakeholders
Stakeholder engagement
Monitor meets key stakeholders on a regular basis to discuss matters relating to NHS foundation trust policy and broader questions on health reform. Monitor is usually represented by the Chairman and interim Chief Executive, Director of Strategy and Chief Operating Officer.

During 2011/12, regular meetings were held with a number of organisations and individuals, including ministers, special advisers and senior officials from the Department of Health, the Foundation Trust Network, chairs, chief executives and finance directors of NHS foundation trusts, the CQC, the Audit Commission and the National Audit Office. In addition, the Board of Monitor invited NHS foundation trust representatives to join part of its business planning away-day in December 2011.

Monitor's website
Our website, www.monitor-nhsft.gov.uk, is a primary source of information on Monitor. The site includes an archive of publications, information on NHS foundation trust performance and information on our corporate practices.

Stakeholders who register for the service can receive a notification when any news releases are posted, consultations are launched, documents published and new events publicised. There is also an email facility to contact us.

NHS Foundation Trust Code of Governance and *UK Corporate Governance Code*
The *NHS Foundation Trust Code of Governance* was first published in 2006. Following reviews of its application in 2008 and 2009, and also taking account of more recent developments in governance practices specific to NHS foundation trusts, we published a revised code in March 2010. Building on the principles and provisions of the *UK Corporate Governance Code*, the *NHS Foundation Trust Code of Governance* is designed to assist NHS foundation trusts in improving their governance by bringing together the best practice of both public and private sector governance.

The requirement for NHS foundation trusts to disclose their compliance (or otherwise) with the provisions of the Code in their respective statutory annual reports came into force for the 2007/08 financial year. Where they are applicable to Monitor, Monitor has complied with the main principles of the *UK Corporate Governance Code* and the *NHS Foundation Trust Code of Governance* during the period 1 April 2011 to 31 March 2012, except for:

NHS FT Code of Governance	**UK Corporate Governance Code**	**Monitor position**
A.2.2 *The chairman should on appointment meet the independence criteria set out in A.3.1. A chief executive should not go on to be chairman of the same NHS foundation trust.*	**A.2.1** *The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executives should be clearly established, set out in writing and agreed by the board.*	The appointment of Dr David Bennett as Chairman with effect from 1 March 2011 was made by the Secretary of State for Health and was not a matter for the Board. The Board has agreed a formal statement of how Dr Bennett will exercise his duties whilst he continues to act as interim Chief Executive as well as Chairman.
	A.3.1 *The chairman should on appointment meet the criteria set out in B.1.1. A chief executive should not*	

NHS FT Code of Governance	UK Corporate Governance Code	Monitor position
	go on to be chairman of the same company.	
C.2.1 *All other Executive Directors should be appointed by a Committee of the Chief Executive, the Chairman and non executive directors.*	**B.7.1** *All directors of FTSE 350 companies should be subject to annual election by shareholders.*	Given the statutory composition of Monitor's Board, the appointment and re-appointment of Board members is a matter for the Secretary of State for Health. Appointments to SMT level are a matter for the Chief Executive, having consulted with the Board as appropriate. There is no express reference to Executive Directors at Monitor.
	B.7.2 *The board should set out to shareholders in the papers accompanying a resolution to elect a non executive director why they believe an individual should be elected.*	
E.2.1 *The Board of directors must establish a remuneration committee composed of non executive directors which should include at least three independent non executive directors.*	**D.2.1** *The Board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non executive directors.*	Given the statutory composition of Monitor's Board, Monitor's Remuneration Committee comprises two independent non executive directors.
F.3.1 *The Board must establish an audit committee composed of non executive directors which should include at least three independent non executive directors.*	**C.3.1** *The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non executive directors*	Given the statutory composition of Monitor's Board, Monitor's Audit and Risk Committee comprises two independent non executive directors, and one independent member.
F.3.6 *The NHS foundation trust should appoint an external auditor for a period of time which allows the auditor to develop a strong understanding of the finances, operations and*	**C.3.6** *The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor*	Given the statutory composition of Monitor, the National Audit Office acts as its external auditor.

NHS FT Code of Governance	UK Corporate Governance Code	Monitor position
forward plans of the organisation.		

Internal control
As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Monitor's policies, aims and objectives. These are set out in the National Health Service Act 2006 and Monitor's Corporate Plan 2009/12. In doing so, I must safeguard the public funds and assets in accordance with the responsibilities assigned to me in *Managing Public Money* and the Accounts Direction from the Department of Health dated 14 June 2007.

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

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

The system of internal control has been in place in Monitor for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Risk and control framework
Monitor's Risk Management Framework describes an organisation-wide approach to risk management supported by effective and efficient systems and processes. The framework clearly describes Monitor's approach to risk management and the roles and responsibilities of Monitor's Board, management and all staff. The framework was reviewed and revised in 2011/12, resulting in changes to the methodology used to aggregate risks against Monitor's strategies and goals, and changes to streamline the risk reporting process. These changes were scrutinised by the Audit and Risk Committee, prior to being endorsed by Monitor's Board in September 2011.

The principal risks facing Monitor during 2011/12
The overarching issue we face in carrying out our regulatory activities remains the need to strike the right balance between the risk of not identifying issues and regulatory burdens. In preparing our 2011/12 business plan, we took account of the highest-rated risks to delivering our strategies and goals relating to our current functions and responsibilities, and how they would be mitigated. The most significant risks to each strategy area in our 2011/12 business plan are set out below; they include the transition to Monitor's new functions, as set out in the Health and Social Care Act, our potential participation in the Department of Health's shared support services initiative and the delivery of the pipeline of applicant trusts.

- **Operating a rigorous assessment process:** moving towards an all-NHS foundation trust sector by April 2014 is dependent on Monitor receiving high-

quality applicant trusts. In 2011/12, we continued to see significant risks in the delivery of a pipeline of applicants of the right quantity and quality to meet the Department of Health's objectives. The pipeline needs to be subject to appropriate phasing to ensure that a large number of trusts are not put forward towards the end of the process, which would have a significant impact on our resources.

We contributed to managing this risk by working with the Department of Health, strategic health authorities and the Foundation Trust Network to ensure an effective preparation programme for high-quality applicant trusts and to share lessons from the assessment process, while maintaining a high and consistent standard of assessment.

- **Operating a proportionate, risk-based regulatory regime:** as NHS funding faced more constraints, we anticipated that Monitor could face an increasing number of complex regulatory issues and potentially more trusts in significant breach. Foundation trusts have had to plan more effectively, deal with increased financial risk and continue to deliver high-quality services while making the required efficiencies on a much larger scale than previously achieved.

  We have ensured that Monitor's compliance regime continues to develop to support early identification of major risks (for example through the Annual Plan Review) and that our escalation and intervention processes are robust and able to handle any increase in failure. We have supported this activity by developing strong networks and external relationships with our key partners, including the Department of Health, NHS foundation trust boards of directors and boards of governors and emerging organisations. By holding foundation trusts to account against their action plans, we continue to support the CQC in their role to ensure that essential standards of quality and patient safety are met, as well as ensuring that they are well-run and financially viable.

- **Promoting the development of well-led NHS foundation trusts:** without the necessary skills, we felt that it was possible that some NHS foundation trust boards of directors would find it difficult to deliver trust performance. In this context, some boards could struggle with the extent of the challenge to plan and deliver simultaneous improvements in both cost and quality.

  We continued to work with partners to develop tools and training materials to support both executive and non executive directors in building their trust's capacity to lead improvements in quality and productivity, for example through the service-line management approach. We also considered new models of delivery to support governor development.

- **Contributing to and influencing the development of an affordable, devolved system of health care provision:** it was possible that some risks could have tested the Department of Health's commitment to a devolved health care system. Some commissioners could have found it difficult to work constructively with providers to manage demand and pay appropriately for activity, particularly in the changing NHS landscape, and may have sought as a result to transfer financial risk to providers.

  In order to help mitigate these risks we have continued to work with partners and have contributed to the development of policies that we believe are a priority for a devolved health care system. These include strengthening the quality framework and developing pricing. Where asked, we supported the Department of Health in

other relevant policy work, such as capital expenditure forecasts. We also continued to monitor actual and likely contract disputes so that we are better able to understand the risk profile of individual foundation trusts.

- **Continuing to improve as a high-performing organisation:** there was uncertainty for our staff working in areas where the Health and Social Care Bill had set an end date for that particular function. Staff in assessment and compliance were affected by the proposed changes to Monitor's regulatory functions, and the recruitment and retention of high-quality staff during the transition could have proved challenging. Resourcing needed to reflect the increasing number of assessments, transactions and volume and complexity of compliance activity.

  In response to these risks we engaged staff in our change processes to guard against possible adverse effects on retention and staff morale. We provided more personal and professional development options, allowing us to continue to attract and retain high-quality and highly-motivated people as we moved towards delivering our new functions. Additionally, we reviewed the capacity and capability of our assessment and compliance teams to ensure appropriate staffing for both our current and future functions, and sought to understand and mitigate the potential impact of the shared support services programme.

In addition to these strategy-specific risks, there were also those that ran across all our current business areas. Senior managers' time and workload continued to be heavily impacted by the combined demands of developing Monitor's proposed role as sector regulator, preparing for, contributing to and responding to the outcomes of The Mid Staffordshire NHS Foundation Trust Public Inquiry, and responding to the various stages of the Health and Social Care Bill's passage through Parliament.

Capacity to handle risk
Monitor's Board has overall responsibility for ensuring delivery of Monitor's strategies and goals as outlined in the 2011/12 Business Plan. When setting these strategies and goals, the Board considers Monitor's specific statutory functions as outlined in legislation and Board members' wider understanding of the health care system (the latter being informed by an annual Board workshop).

When the strategies and goals have been established, detailed plans are drawn-up for each strategy area with input from all staff. Risks against achievement of goals and strategies are reported to the Board on a quarterly basis via the Corporate Risk Register. Monitor's Internal Audit strategy categorises Monitor's business into three systems (operational systems, support systems and the governance framework). Internal Audit considers the risks to Monitor in terms of these systems and this directs Internal Audit's priorities which are reflected within the Annual Internal Audit Plan.

Monitor's Risk Management Framework was presented to all staff when it was implemented (in April 2010) and remains available for all members of staff to access on the intranet. To ensure that risk management is embedded within the organisation, the Risk Management Process Coordinator meets with SMT members (or senior managers to whom responsibility has been delegated) on a quarterly basis. This provides assurance that risk management is effective, and enables business units to identify if further actions are required to control the risk and to discuss if any new risks are emerging. Individual risk scores are amalgamated into goal-level risk scores and strategy-level risk scores for consideration by Strategy Committee, Audit and Risk Committee and the Board.

Monitor's Audit and Risk Committee gives consideration to the corporate risk register on a quarterly basis and reports its conclusions directly to the Monitor Board. Internal Audit makes its own regular reports to the Audit and Risk Committee based on its own work programme. The Board discusses the most significant risks and the actions identified to mitigate the likelihood and impact of those risks. On an annual basis, the Audit and Risk Committee evaluates the effectiveness of the risk management framework and approves the *Annual Internal Audit Plan* for the following year.

Monitor's Transition Committee, Audit and Risk Committee and the Board have focused specifically on the risks associated with the organisation's Transition Programme. Separate reports on these risks have been considered in addition to the corporate risk register. In order to provide assurance to the Board of the approach taken to the mobilisation of transition, an external assurance review of the programme arrangements was commissioned and presented to the Board.

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

As the Independent Regulator of NHS Foundation Trusts, it is of paramount importance for Monitor to be able to demonstrate that risk management processes are in place and operating efficiently. KPMG, the internal auditor, was asked to continue to focus their efforts in this area and, with their assistance, Monitor continues to enhance its internal controls environment above and beyond the minimum levels required. Monitor's management team continues to ensure that appropriate and relevant controls are embedded in all areas of Monitor's work.

Internal audit work covering compliance and intervention processes continues to provide me with adequate assurance that effective controls are either in place or being developed to a high degree of sophistication. Monitor's Board has maintained strategic oversight and review of internal control and risk management arrangements through regular reports by directors on their areas of responsibility and through specific papers for discussion at Audit and Risk Committee and Board meetings.

The Audit and Risk Committee, which meets on a quarterly basis, has considered:

- individual internal audit reports and management responses;
- the internal auditors' annual report and opinion on the adequacy of our internal control system;
- National Audit Office audit reports and recommendations; and
- regular reports on Monitor's corporate risk register, including the identification of risks to the organisation's system of internal control and information about the controls that have been put in place to mitigate these risks.

In 2011/12, KPMG, as Monitor's internal auditor, was commissioned to undertake two separate reviews of the Learning and Implications from Peterborough and Stamford Hospitals NHS Foundation Trust and of the Learning and Implications from University Hospitals of Morecambe Bay NHS Foundation Trust. Both of these reports were intended to enable Monitor to learn and improve its processes in light of its experiences with these foundation trusts. It was subsequently decided that the

reports and Monitor's response to them should be published. Further information about this work can be found on page 16.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems for 2011/12. As Monitor's Accounting Officer, I have gained assurance over the adequacy of Monitor's internal control environment during the period before my appointment from individual assurances given to me by each member of the SMT as to the adequacy of the internal control environment within their own directorate.

Dr David Bennett
Chair and Interim Chief Executive
3 July 2012

Remuneration report

Remuneration policy

The remuneration of Monitor employees, including the Chief Executive, is agreed by the Remuneration Committee, while the Chairman's salary is determined by the Secretary of State for Health. The membership of the Remuneration Committee comprises the Deputy Chairman of Monitor, a non-executive director and other members as from time to time agreed by the chairman of the Committee. Other non-executive directors attend by invitation. No member is involved in any decisions or discussion as to their own remuneration. In reaching its recommendations, the Committee has regard for the following considerations:

- from 2011/12 Monitor entered a two year pay freeze;
- the need to recruit, retain and motivate suitably able and qualified staff;
- the funds available from the Department of Health; and
- the requirement to deliver performance targets.

Service contracts

Appointments are made on merit on the basis of fair and open competition. Unless otherwise stated, the Senior Management Team covered by this report holds appointments which are open-ended.

On 1 March 2011 David Bennett was appointed as permanent Chair of Monitor on a four year contract, however throughout 2011/12 he has continued to hold the position of Interim Chief Executive and will do so until a permanent replacement is appointed.

Chris Mellor's contract as a non-executive director finished on 31 March 2012, which was the end of three terms served on Monitor's Board.

With effect from 1 January 2012, Sigurd Reinton was appointed as a Non-Executive Director for a term of four years.

Notice periods and termination costs

The required notice periods for the Senior Management Team are given in the table below. Under the terms of their contract, after one continuous year of service, members of the Senior Management Team are eligible for the same severance payment as any other Monitor employee, which is determined by the Civil Service severance compensation scheme.

	Notice period
David Bennett Interim Chief Executive	1 month
Stephen Hay Chief Operating Officer	6 months
Adrian Masters Director of Strategy	6 months
Kate Moore Director of Legal Services	3 months
Sue Meeson Director of Public Affairs and Communications	3 months
Janet Polson Director of Human Resources and Corporate Services	3 months

Remuneration report continued

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's Senior Management Team and Board. These figures have been audited. Senior managers are salaried and are entitled to annual pay progression subject to individual performance against objectives. From 2011/12 Monitor entered a two year pay freeze.

Senior Management Team	**2011-12 Salary** **£'000**	**2010-11 Salary** **£'000**
David Bennett Interim Chief Executive Note: David Bennett does not receive an additional salary as Chairman whilst also acting as Interim Chief Executive.	220-225* *(240-245 full time equivalent)*	240-245* *(290-295 full time equivalent)*
Stephen Hay Chief Operating Officer	185-190	185-190
Adrian Masters Director of Strategy	145-150	145-150
Kate Moore Director of Legal Services	125-130	125-130
Sue Meeson Director of Public Affairs and Communications	90-95	90-95
Janet Polson Director of HR and Corporate Services	85-90	85-90

* The Interim Chief Executive's remuneration is non-pensionable.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in Monitor in the financial year 2011/12 was £240-245k (2010/11, £290-295k). This was 4.1 times (2010/11, 4.7) the median remuneration of the workforce as at 31 March 2012, which was £60,575 (31 March 2011, £62,000). The median remuneration figures only include permanent staff on payroll, as it is too difficult to calculate the figures using agency staff costs as well.

In 2011/12, 0 (2010/11, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20-25k to £240-245k (2010/11 £20-25k to £290-295k).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The ratio fell from the previous year as the highest paid director's remuneration was reduced from January 2011 so the full year effect of this has impacted on the ratio. During 2011/12 a number of staff have been recruited at around the average salary of the organisation and this has also contributed to the decrease.

Remuneration report continued

Chairman and other non-executive directors	**2011-12 Remuneration £'000**	**2010-11 Remuneration £'000**
Christopher Mellor Acting Chairman * (stepped down with effect from 4 May 2010)	N/A	0-5* *(55-60 full year equivalent)*
Steve Bundred Chairman ** (appointed with effect from 1 May 2010 and resigned with effect from 28 February 2011)	N/A	100-105** *(70-75 full year equivalent)*
David Bennett Chairman (appointed with effect from 1 March 2011) Note: David Bennett does not receive a salary as Chairman in addition to that which he receives as Interim Chief Executive.	0***	0***
Christopher Mellor Non-executive director and Deputy Chair (until 31 March 2012)	35-40	30-35
Jude Goffe Non-executive director	20-25	10-15
Elaine Murphy Non-executive director (term of appointment expired on 30 June 2010)	N/A	0-5
Stephen Thornton Non-executive director	25-30	20-25
Sigurd Reinton Non-executive director (appointed with effect from 1 January 2012)	0-5	N/A
Keith Palmer Non-executive director (appointed with effect from 1 April 2012 but shadowed from 1 January 2012)	0-5	N/A

* As Acting Chairman, Christopher Mellor received a salary, while as a non-executive director his and all other non-executive director remuneration is in the form of fees for attendance at meetings.
**Steve Bundred's remuneration includes a payment in lieu of notice, for which reason his full year equivalent is lower than the actual remuneration he received.

All remuneration paid to the Chairman and non-executive directors is non-pensionable. The benefits in kind given to executive and non-executive directors are disclosed below. The monetary value of benefits in kind covers any payments (for business expenses or otherwise) or other benefits provided by Monitor which are treated by HM Revenue & Customs as a taxable emolument.

Senior Management Team, Chairman and other non-executive directors	**2011-12 Benefit in Kind £***
David Bennett Interim Chief Executive	2
Stephen Hay Chief Operating Officer	1
Adrian Masters Director of Strategy	1
Christopher Mellor Non-executive director and Deputy Chair	23
Stephen Thornton Non-executive director	7
Jude Goffe Non-executive director	21

*Figures are given to the nearest £100.

Pension benefits	**Accrued pension at age 60 as at 31/03/12 £'000**	**Real increase in pension**	**CETV* at 31/03/11** £'000**	**CETV* at 31/03/12 £'000**	**Real increase in CETV* £'000**
Stephen Hay Chief Operating Officer	20-25	0-2.5	269	320	22
Adrian Masters Director of Strategy	15-20	0-2.5	217	264	19
Kate Moore Director of Legal Services	15-20	0-2.5	191	226	16
Sue Meeson Director of Public Affairs and Communications	0-5	0-2.5	27	51	9
Janet Polson Director of HR and Corporate Services	35-40	(0-2.5)	596	623	(25)

* Cash equivalent transfer value
** The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

None of the Senior Management Team are members of a scheme which automatically pays a lump sum on retirement.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Existing staff may be in one of four defined benefit schemes; either a 'final salary scheme' (Classic, Premium, and Classic Plus) or a 'whole career scheme' (Nuvos). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Price Index (RPI). Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Nuvos, Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a variation of Premium but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as Classic.

The Nuvos scheme was introduced on 30 July 2007 for all new staff unless they are already members of or eligible to rejoin the other schemes. Members of Nuvos build up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme

year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).
Further details about the Civil Service pension arrangements can be found on the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. The CETV is the amount paid by one pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when a pension scheme member leaves and chooses to transfer the benefits accrued from their previous scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Dr David Bennett
Chair and Interim Chief Executive
3 July 2012

Statement of Accounting Officer's responsibilities

Under the National Health Service Act 2006, the Accounting Officer is required to prepare accounts for each financial year on a going concern basis. The Secretary of State for Health directs that these accounts present a true and fair view of Monitor's income and expenditure and cash flows for the financial year, and to the state of affairs at the year end. In preparing the accounts, the Accounting Officer is required to:

- observe the Accounts Direction issued by the Secretary of State;
- apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the accounts on a going concern basis.

From 3 March 2010, the Accounting Officer for the Department of Health appointed Monitor's Interim Chief Executive, David Bennett, as Monitor's Accounting Officer. The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and the safeguarding of Monitor's assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in *Managing Public Money*.

The certificate and report of the Comptroller and Auditor General

I certify that I have audited the financial statements of Independent Regulator of NHS Foundation Trusts (Monitor) for the year ended 31 March 2012 under the National Health Service Act 2006. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor
As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Health Service Act 2006. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Monitor's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Monitor; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity
In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state Monitor's affairs as at 31 March 2012 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the National Health Service Act 2006; and
- the information given in the 'Board', 'Senior Management Team', 'Management Report' 'Sustainability Report' and 'Financial Position' sections included within the Annual Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 July 2012

Statement of comprehensive net expenditure
for the year ended 31 March 2012

	Note	year ended 31/3/12 £000's	£000's	year ended 31/3/11 £000's	£000's
Expenditure					
Staff costs	3	(13,844)		(10,566)	
Amortisation/Depreciation	4	(395)		(398)	
Other expenditures	4	(9,433)		(5,106)	
Total expenditure			(23,672)		(16,070)
Income					
Miscellaneous income	5		8,134		1,299
Net expenditure			(15,538)		(14,771)
Comprehensive net expenditure for the year			(15,538)		(14,771)

All operations are continuing.

There were no other recognised gains or losses for the financial year.

The notes on pages 96-106 form part of these accounts.

Statement of financial position
for the year ended 31 March 2012

	Note	31/03/12 £000's	31/03/12 £000's	31/03/11 £000's	31/03/11 £000's
Non-current assets					
Intangible assets	7a		118		185
Property, plant and equipment	7b		812		772
Total non-current assets			930		957
Current assets					
Trade and other receivables	8	759		1,092	
Cash and cash equivalents	9	8,056		1,741	
Total current assets			8,815		2,833
Total assets			9,745		3,790
Current liabilities					
Trade and other payables	10	(7,785)		(1,933)	
Total current liabilities			(7,785)		(1,933)
Non-current assets plus net current assets			1,960		1,857
Non-current liabilities					
Financial liabilities	11	(72)		(131)	
Provisions for liabilities and charges	12	(309)		(309)	
Total non-current liabilities			(381)		(440)
Assets less liabilities			1,579		1,417
General reserve			1,579		1,417

The notes on pages 96-106 form part of these accounts.

Dr David Bennett
Chair and Interim Chief Executive
3 July 2012 •

Statement of cash flows
for the year ended 31 March 2012

	Note	year ended **31/03/2012** **£000's**	year ended **31/03/2011** **£000's**
Cash flows from operating activities			
Net expenditure on ordinary activities before interest		(15,538)	(14,771)
Adjustments for non-cash items			
Depreciation charge	4	279	248
Amortisation charge	4	116	150
Loss on disposal of intangible non-current assets	4	0	50
Release of long term rent accrual		(59)	(59)
Adjustments for movements on working capital			
(Increase)/decrease in trade and other receivables falling due within one year	8	334	(747)
Increase/(decrease) in trade and other payables falling due within one year	10	5,763	(779)
Net cash outflow from operating activities		(9,105)	(15,908)
Capital expenditure			
Payments to acquire intangible non-current assets	7	(49)	(41)
Payments to acquire property, plant and equipment	7	(231)	(229)
Cash flows from financing activities			
Grant-in-aid received		15,700	14,168
Net decrease in cash and cash equivalents		**6,315**	**(2,010)**
Cash and cash equivalents at the beginning of the year	9	1,741	3,751
Cash and cash equivalents at the end of the the year	9	8,056	1,741

The notes on pages 96-106 form part of these accounts.

Statement of changes in taxpayers' equity
for the year ended 31 March 2012

	General Reserve 2011/12 £000's	General Reserve 2010/11 £000's
Balance at 1 April	**1,417**	**2,020**
Comprehensive net expenditure for the year	(15,538)	(14,771)
Grant-in-aid received towards revenue expenditure	15,502	14,110
Grant-in-aid received towards purchase of non-current assets	198	58
Balance at 31 March	**1,579**	**1,417**

Notes to the Accounts

1. Accounting policies

The annual report and accounts have been prepared in accordance with the *Government Financial Reporting Manual* (*FReM*) issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Monitor for the purpose of giving a true and fair view has been selected. The particular policies adopted by Monitor are described below. They have been applied consistently in dealing with items that are considered material in relation to the financial statements.

Accounting convention

This account is prepared under the historical cost convention, in accordance with directions issued by the Secretary of State for Health with the approval of HM Treasury.

Non-current assets

The *FReM* permits revaluation of property, plant and equipment, and intangible assets to their value to the business at current costs. Monitor has determined that current value is not materially different from historical cost and has therefore chosen to value property, plant and equipment, and intangible assets at historic cost.

Intangible assets comprise purchased licences to use third party software systems. All assets falling into this category with a value of £5,000 or more have been capitalised. Intangible assets are valued at historic cost less amortisation.

Property, plant and equipment comprise IT hardware, furniture, fixtures, office equipment and leasehold improvements which individually or grouped cost more than £5,000. Assets of the same or similar type acquired around the same time and scheduled for disposal around the same time, or assets which are purchased at the same time and are to be used together, are grouped together as if they were individual assets. All non-current assets have been funded by Government grant-in-aid.

Amortisation and Depreciation

Amortisation and depreciation is provided from the month following purchase on all intangible assets and property, plant and equipment at rates calculated to write off the cost or valuation of each asset evenly over its expected life as follows:

IT Software and IT Equipment - 3 years
Furniture, fixtures and office equipment - 5 years
Leasehold improvements - over life of lease

Income

The main source of funding for Monitor is Government grant-in-aid from the Department of Health. This is credited to the general reserve as it is received. Occasionally, Monitor receives income as a result of its operating activities. Miscellaneous operating income is recognised on the face of the *Statement of comprehensive net expenditure* and under the accruals convention. Costs incurred on transition activities are recharged to the Department of Health and recognised as income in accordance with accounts directions received from the Department of Health.

Operating leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Financial instruments
As required by the *FReM*, Monitor has accounted for financial instruments in accordance with IFRS 7.

Value Added Tax
Monitor is not registered for VAT so all expenditure in these financial statements includes VAT incurred.

Pensions
Monitor participates in the Principal Civil Service Scheme. The scheme is an unfunded defined benefit scheme. Monitor contributes annual premiums and retains no further liability except in the case of employees who take early retirement. Employers pension cost contributions are charged to operating expenses as and when they become due. Details are included in note 14 to the Accounts.

Early adoption of IFRS's, amendments and interpretations
Monitor has not adopted any IFRS's, amendments or interpretations early.

IFRS's, amendments and interpretations in issue but not yet effective, or adopted
IAS 8, accounting policies, changes in accounting estimates and errors, require disclosures in respect of new IFRS's, amendments and interpretations that are, or will be applicable after the accounting period. There are a number of IFRS's, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period. The following have not been adopted early by Monitor:

• IFRS 7 Financial Instruments: Disclosures Amendment to allow for better comparisons between financial statements. The effective date is for accounting periods beginning on or after 1 January 2013. Also an amendment to improve the disclosure requirements in relation to transferred financial assets which is effective for accounting periods beginning on or after 1 July 2011.
• IFRS 9 Financial Instruments A new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 January 2015.
• IFRS 13 Fair Value Measurement IFRS 13 applies when other IFRS's require or permit fair value measurements. The new requirements are effective for accounting periods beginning on, or after 1 January 2013.

• IAS 1 Presentation of Financial Statements Amendment to the existing standard to improve disclosures to users of the accounts. The effective date is for accounting periods beginning on, or after 1 June 2012.
• IAS 19 Employee Benefits The amendments will improve the recognition and disclosure requirements for defined benefit plans and modify the accounting for termination benefits. The new requirements are effective for accounting periods beginning on or after 1 January 2013.
• IAS 32 Offsetting Financial Assets and Financial Liabilities Amendments to clarify the application of offsetting requirements. The amendments are effective for accounting periods beginning on or after 1 January 2014.

None of these new or amended standards and interpretations are likely to be applicable or are anticipated to have future material impact on the financial statements of Monitor.

Notes to the Accounts continued

2. Analysis of net expenditure by segment

As the independent regulator of NHS foundation trusts, Monitor's statutory duty is to authorise and monitor NHS foundation trusts.

In 2011/12 Monitor was given authorisation to incur expenditure to prepare for the transition to sector regulator as defined in the Health and Social Care Act 2012. The Department of Health recharged Monitor for the expenditure incurred and this has been reported below as a segment of Monitor, separate from spending related to Monitor's existing statutory duty.

Monitor has not reported any comparatives to the segmental reporting as for 2010/11 none of the budget allocation was used for transition spend.

	Segment 1 £000's	Segment 2 £000's	Total £000's
Gross expenditure	16,098	7,574	23,672
Income	(390)	(7,744)	(8,134)
Net expenditure	**15,708**	**(170)**	**15,538**
Total assets	3,857	5,888	9,745
Total liabilities	(2,448)	(5,718)	(8,166)
Net assets	**1,409**	**170**	**1,579**

Description of Segments
Segment 1 - Authorising and monitoring NHS Foundation Trusts
Segment 2 - Transition to Monitor's new role as sector regulator for health

3. Staff costs

a) Staff costs comprise the following

	Permanently employed staff £000's	Others £000's	Total £000's
Salaries and Wages	7,703	3,712	11,415
Social Security Costs	808		808
Employer's Pension Costs	1,691		1,691
Total cost of staff employed	**10,202**	**3,712**	**13,914**
Less recoveries in respect of outward secondments	(70)		(70)
Total cost of staff	**10,132**	**3,712**	**13,844**

Prior Year

	Permanently employed staff £000's	Others £000's	Total £000's
Salaries and Wages	6,874	1,645	8,519
Social Security Costs	686		686
Employer's Pension Costs	1,507		1,507
Total cost of staff employed	**9,067**	**1,645**	**10,712**
Less recoveries in respect of outward secondments	(146)		(146)
Total cost of staff	**8,921**	**1,645**	**10,566**

Other staff costs consist of agency, interim and seconded staff.

b) The average number of whole time equivalent employees during the year was as follows:

As at 31 March 2012, there were 132 salaried staff members (31 March 2011: 112), 123 of whom are members of the Principal Civil Service Pension Scheme, 8 of whom are members of the Partnership Civil Service Pension Scheme, and one of whom is not a member of a pension scheme.

Monitor engages staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2012 there were 49 staff working at Monitor on this basis (31 March 2011: 36).

The average number of whole-time equivalent employees during the year ended 31 March 2012 was 119 (year ended 31 March 2011: 103). The average number of whole-time equivalent agency, secondment, temporary and interim staff was 30 (year ended 31 March 2011: 16).

c) The salaries of executives and NEDs are disclosed in the Remuneration Report on page 84.

4. Other operating expenditure

	year ended **31/03/12 £000's**	year ended **31/03/11 £000's**
Property expenses *	1,387	1,187
Office expenses *	1,334	977
Consulting services	4,630	1,168
Audit fee for Monitor	33	26
Audit fee for consolidated accounts	73	85
Other professional fees	1,625	1,271
Depreciation	279	248
Amortisation	116	150
Dilapidations	0	0
Loss on disposal of intangible non-current assets	0	50
Travel and subsistence	129	112
Communication expenses	98	132
General expenses	124	97
Total other operating expenditure	**9,828**	**5,504**

* Property expenses relate to the cost of leasing and running Monitor's offices, while office expenses are items needed to operate in the office, such as stationery and photocopying.

Notes to the Accounts continued

5. Miscellaneous income

	year ended 31/03/12 £000's	year ended 31/03/11 £000's
Income from Department of Health to fund Transition programme	7,744	0
Insurance income	218	340
Rental income	128	126
Other miscellanenous income	44	833
	8,134	**1,299**

The Department of Health gave Monitor £7,744k to fund spending on the transition programme. The sums received from the Department in respect of these costs have been accounted for as income/deferred income, in line with the accounts directions received from the Department. This income includes £170k towards capital expenditure.

During the year, Monitor received income from its insurer to cover Legal fees incurred in relation to the the Mid Staffordshire Public Inquiry, which commenced in November 2010.

Monitor also received income from secondments; this income is reported within staff costs in note 3.

6. Analysis of net expenditure by Programme and Administration budget

Since Monitor started in 2004 all of its spend has been Administration budget.

7. Non-current assets

a) Intangible assets

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1st April 2011	310	41	351
Additions	49		49
At 31st March 2012	**359**	**41**	**400**
Amortisation			
As at 1st April 2011	152	14	166
Charge for year	102	14	116
At 31st March 2012	**254**	**28**	**282**
Net Book Value at 31 March 2011	158	27	185
Net Book Value at 31 March 2012	**105**	**13**	**118**

Prior Year

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1st April 2010	941	464	1,405
Disposals	(631)	(423)	(1,054)
At 31st March 2011	**310**	**41**	**351**
Amortisation			
As at 1st April 2010	620	400	1,020
Charge for year	113	37	150
Reverse disposals	(581)	(423)	(1,004)
At 31st March 2011	**152**	**14**	**166**
Net Book Value at 31 March 2010	321	64	385
Net Book Value at 31 March 2011	**158**	**27**	**185**

7. Non-current assets continued

b) Property, plant and equipment

	IT equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
	£000's	£000's	£000's	£000's
Cost or valuation				
As at 1st April 2011	567	518	917	2,002
Additions	278	35	6	319
Disposals	(89)	0	0	(89)
At 31st March 2012	**756**	**553**	**923**	**2,232**
Depreciation				
As at 1st April 2011	363	394	473	1,230
Charge for year	142	43	94	279
Reverse Disposals	(89)	0	0	(89)
At 31st March 2012	**416**	**437**	**567**	**1,420**
Net Book Value at 31st March 2011	204	124	444	772
Net Book Value at 31st March 2012	**340**	**116**	**356**	**812**

Prior Year

	IT equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
	£000's	£000's	£000's	£000's
Cost or valuation				
As at 1st April 2010	653	518	907	2,078
Additions	48	0	10	58
Disposals	(134)	0	0	(134)
At 31st March 2011	**567**	**518**	**917**	**2,002**
Depreciation				
As at 1st April 2010	382	351	383	1,116
Charge for year	115	43	90	248
Reverse Disposals	(134)	0	0	(134)
At 31st March 2011	**363**	**394**	**473**	**1,230**
Net Book Value at 31st March 2010	271	167	524	962
Net Book Value at 31st March 2011	**204**	**124**	**444**	**772**

8. Trade receivables and other current assets - amounts falling due within one year

	31/03/12 £000's	31/03/11 £000's
Prepayments	660	543
Other receivables	99	549
	759	1,092

8a. Trade receivables and other current assets - intra Government balances

	31/03/12 £000's	31/03/11 £000's
Balances with central Government bodies	47	407
Balances with local Government bodies	332	266
Balances with bodies external to Government	380	419
	759	1,092

9. Cash and cash equivalents

The following balances at 31 March were held at:	31/03/12 £000's	31/03/11 £000's
Government Banking Service	7,962	1,659
Commercial banks and cash in hand	94	82
	8,056	1,741

10. Trade payables and other current liabilities

Amounts falling due within one year:	31/03/12 £000's	31/03/11 £000's
Trade payables	2,213	382
Tax and national insurance contributions	285	242
Pensions payable	195	157
Liability relating to rent-free period	59	59
Non-current asset payables	89	0
Accruals and deferred income	4,944	1,093
	7,785	1,933

10a. Payables - intra Government balances

	31/03/12 £000's	31/03/11 £000's
Balances with central Government bodies	3,666	399
Balances with NHS Trusts	12	0
Balances with bodies external to Government	4,107	1,534
	7,785	1,933

11. Financial liabilities

	31/03/12 £000's	31/03/11 £000's
Liability relating to rent free period	72	131

Notes to the Accounts continued

12. Provisions for liabilities and charges

	Dilapidation provision
	£000's
Provision as at 1st April 2011	309
Charge for the year	0
Provision as at 31 March 2012	**309**

Monitor holds a provision for dilapidation for its office space at 4 Matthew Parker Street.

Analysis of expected timing of cash flows

	Dilapidation provision
	£000's
Within 1 year	0
Within 2 to 5 years	309
After more than 5 years	0
	309

13. Operating leases

Total minimum lease payments under operating leases are given in the table below, analysed according to the period in which the payments fall due.

	31/03/12	31/03/11
	£000's	£000's
Within 1 year	1,107	748
Within 2 to 5 years	1,085	1,833
After more than 5 years	0	0
	2,192	**2,581**

Notes to the Accounts continued

14. Pension scheme

Monitor participates in the Principal Civil Service Pension Scheme (PCSPS). The Scheme is an unfunded, multi-employer defined benefit scheme but Monitor is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2011/12, employer's contributions of £1,671,635 were payable to the PCSPS (2010/11: £1,487,402) at one of four rates in the range 16.7% and 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of benefits accruing during 2011/12 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £17,068 (2010/11: £17,959) were paid into one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,991 (2010/11: £1,382), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2012 were £2,464 (31 March 2011: £2,574).

15. Capital commitments

There were no capital commitments at 31 March 2012 that require disclosure.

16. Related parties

Monitor is a non-departmental public body sponsored by the Department of Health which is regarded as a related party. Amounts owing from and to the Department of Health are reflected in receivables and payables respectively.

In 2011/12 the value of related party expenditure with the Department of Health was £219,105 (2010/11: £5,240). This relates to the provision of payroll services for Monitor, accommodation costs as Monitor now occupies part of a DH building, and recharged staff costs for Cooperation and Competition Panel staff working on Monitor projects.

Monitor received £7,782,911 of income from the Department of Health to fund the transition work that Monitor undertook in 2011/12 and other miscellaneous recharged costs.

In addition, Monitor has had a small number of transactions with other government departments and other central government bodies.

No board member, member of senior management or other related party has undertaken any material transactions with Monitor during the year.

17. Financial instruments

IFRS 7, Financial Instruments Disclosure, requires the disclosure of the role that financial instruments have had during the period in creating or changing the risk an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk for Monitor than would be typical of the listed companies to which IFRS 7 mainly applies, as described below.

Liquidity risk

The main source of funding for Monitor is Government grant-in-aid received from the Department of Health. This is paid to Monitor monthly on the basis of a payment schedule agreed annually with the Department of Health. By ensuring that expenditure is maintained within the budgetary allocation, Monitor faces minimal liquidity risk.

Interest rate risk

Throughout the year ended 31 March 2012, Monitor held no interest bearing assets or liabilities and, therefore, was not subject to any interest rate risk.

Credit risk

As can be seen in note 8a, at 31 March 2012, only £400,000 (31 March 2011: £419,000) of Monitor's receivables were with bodies external to Government. Of these, £326,000 were prepayments and £32,000 were season ticket loans, which are recoverable through payroll. Given that intra Government balances are not subject to credit risk, Monitor faced very little credit risk at 31 March 2012.

Most of Monitor's cash balance is held with the Government Banking Service. Monitor also maintains a commercial bank account with HSBC but the balance on this account is automatically reduced if it ever rises above £100,000. Given the limit on the amount held in it, Monitor faces minimal credit risk as a result of maintaining this account.

18. Contingent liabilities

There were no contingent liabilities at 31 March 2012.

19. Events after the reporting date

The authorised date for issue is 5 July 2012.

From 1 April 2012 onwards Monitor will host the Co-operation and Competition Panel (CCP). Previously the organisation was hosted by Department of Health. Monitor will receive an additional £3.1m of grant-in-aid as a result of this change.

There are no other events after the reporting date which require disclosure.

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