NHS Foundation Trusts: Review and Consolidated Accounts 2006-07

Monitor

Independent Regulator of NHS Foundation Trusts

Front cover image supplied by Chesterfield Royal Hospital
NHS Foundation Trust

Monitor – The Independent Regulator of NHS Foundation Trusts

NHS Foundation Trusts: Review and Consolidated Accounts 2006-07

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Foreword from the Executive Chairman, William Moyes

NHS foundation trusts have now been part of the NHS for over three years. In that time NHS foundation trusts have established strong finances and delivered high quality services.

NHS foundation trusts are providing increasing proportions of the care offered to NHS patients. By the end of 2006-07, the period covered by this report, there were 59 NHS foundation trusts. Today there are 79. One in three acute trusts and one in four mental health trusts have now achieved foundation trust status.

Monitor continues to maintain its high standards at authorisation. Only two in three applicant trusts are authorised at first assessment and the performance of new NHS foundation trusts matches that of the established NHS foundation trusts.

The good performance of NHS foundation trusts in 2006-07 meant that Monitor did not need to use its statutory powers of intervention. We have, however, worked closely with those NHS foundation trusts identified by our compliance process as at risk of breaching their Terms of Authorisation. Of these NHS foundation trusts, four had financial issues, three had significant governance issues (largely relating to achievement of waiting times and choice and booking targets) and one had both financial and governance issues.

Significantly, we are now able to forecast financial problems with confidence and prompt NHS foundation trusts to take action some 12-18 months before they reach crisis point. While we still have some work to do to bring our non-financial compliance systems to this level, this move to a system that tackles problems before they emerge is a huge advance over the traditional public sector model of reporting on past failure.

While NHS foundation trusts have made a solid start, we are not yet seeing them fully exploit their freedoms to drive up performance. In part, this is a reflection of the maturity of NHS foundation trusts as autonomous organisations and of the continuing uncertainty over commissioning intentions for future services.

However we are starting to see changes in boards and board behaviour. Boards do understand that they are responsible for the performance of their NHS foundation trust and are starting to drive performance.

William Moyes, Executive Chairman

The introduction of service-line management is helping NHS foundation trusts to understand their services. Service-line management was introduced to the NHS by Monitor and it is a management technique where services are organised as individual business units with senior clinicians responsible for both profits and quality of care. Engaging clinicians in this way is vital to develop services for patients. In addition, this new way of working should inform increasingly sophisticated discussions with commissioners as NHS foundation trusts focus on how best they can deliver improvements for patients.

NHS foundation trusts will have to raise their performance if they are to meet the challenges ahead. The efficiency requirements announced in the Comprehensive Spending Review will lead to a tougher tariff. Commissioners and patients will become increasingly demanding on the quality of services. As commissioners better understand local health needs and best practice care pathways needed to meet them, we expect to see increasing levels of service change and reconfiguration.

Boards of NHS foundation trusts should be leading the debate on the quality and pattern of services needed in the future. Through their governors and members NHS foundation trusts should develop a clear view of the needs and priorities of patients and local people. They should be actively engaging their commissioners to discuss future service needs and the opportunities for investments in service development. The current review of the NHS being undertaken by Lord Darzi will set the direction for development of healthcare. The challenge for NHS foundation trusts is to demonstrate that they can play a central role in delivering the service change and improvements arising from the review.

Dr William Moyes
Executive Chairman
9 November 2007

Executive summary

NHS foundation trusts provide a large and expanding portion of healthcare in England. They are delivering high quality services and strong financial results. However we are at the start of the development of NHS foundation trusts and Monitor expects to see further improvements in performance.

This report sets out the aims of the foundation trust policy, the performance of NHS foundation trusts to date and their consolidated accounts for 2006-07.

One in three acute trusts, and one in four mental health trusts are now NHS foundation trusts, and millions of patients rely on these organisations to provide them with high quality care. The accountability arrangements for NHS foundation trusts give a much broader range of people a say in how they develop: from Parliament – to whom Monitor is accountable – to the 766,000 local people, patients and staff who are involved in the development of their NHS foundation trust as members and governors.

NHS foundation trusts are performing well. Their financial performance is strong and continues to improve. Measures of operational efficiency are improving year-on-year.

Good financial performance has not been achieved at the expense of good quality care. Indeed there is growing evidence that NHS foundation trusts are providing better care than NHS trusts. The Healthcare Commission rates a higher proportion of NHS foundation trusts as excellent for quality of service, they have lower rates of MRSA and Clostridium difficile infections than NHS trusts and patient and staff satisfaction rates are higher in NHS foundation trusts.

However, we are at the start of the development of NHS foundation trusts as professionally managed providers of high quality healthcare. There is scope for further improvement in their performance. Tackling healthcare-acquired infections continues to be a real challenge. NHS foundation trusts must continue to reduce the rates of MRSA infection and increase their efforts to reduce Clostridium difficile infections.

Despite their improving operational efficiency, NHS foundation trusts do not out-perform NHS trusts on key measures of clinical productivity such as day-case rates, or length of stay. This suggests there is scope for remodelling clinical pathways to improve efficiency, enabling increased surpluses to be reinvested in improving patient care.

While NHS foundation trusts are maintaining their high levels of performance, we are not yet seeing improved performance after trusts secure foundation trust status. In other words, necessary improvements in governance and financial strength are currently driven by the assessment process and the pace of improvement is not generally sustained after authorisations.

Over the next year Monitor expects to see NHS foundation trusts start to make significant improvements in their productivity, the quality of the care they offer and the experience of their

patients. These improvements will be driven by more effective commissioning, the insights developed from NHS foundation trusts adopting management techniques, such as service-line management, and increasing investment in service development.

Our experience in 2006-07 suggests that NHS foundation trusts are well placed to deliver improvements:

- their boards show an increasing understanding of their role and responsibilities;
- they are increasingly professionally managed;
- the use of service-line management is helping drive improvements from the frontline;
- their strong financial position allows NHS foundation trusts to invest in new services in response to commissioners' requirements; and
- their membership gives NHS foundation trusts the potential to develop a real connection with their local communities, helping the trusts respond to patient needs.

Good financial performance has not been achieved at the expense of good quality care. The Healthcare Commission rates a higher proportion of NHS foundation trusts than NHS trusts as excellent for quality of service.

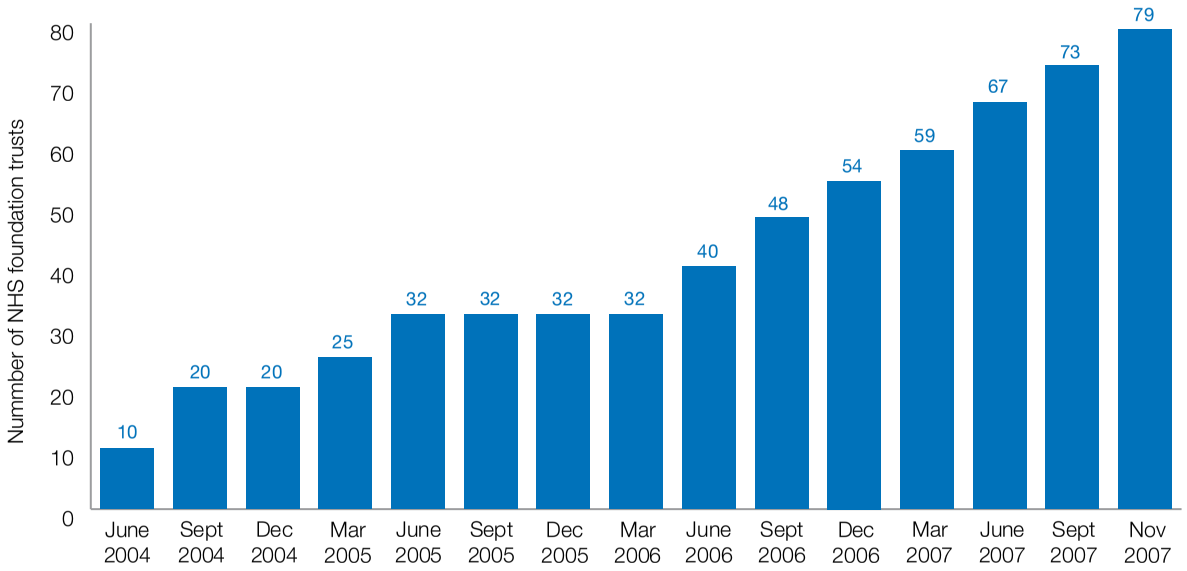
NHS foundation trusts' contribution to healthcare in England

NHS foundation trusts are delivering an increasing proportion of the hospital and mental health services provided for NHS patients. At the end of 2006-07 there were 59 NHS foundation trusts, with a combined income of over £10 billion.

The number of NHS foundation trusts continues to grow rapidly; by 1 November 2007 there were 79. One in three acute hospital trusts and one in four mental health trusts have achieved foundation trust status. At the current rate of authorisation, it could take up to five years to complete the authorisation of all NHS foundation trusts. This timeline is subject to many factors; increased assessment resources and better prepared applicants would shorten the timeline. Conversely, widespread expansion of the NHS foundation trust model, for example into community foundation trusts, would extend the assessment timeline.

Figure 1 shows how the numbers of NHS foundation trusts have increased since the first NHS foundation trusts were authorised in 2004-05. At 1 November 2007, these NHS foundation trusts accounted for 34% of NHS trust turnover. The absence of authorisations in 2005-06 followed the Department of Health's decision to wait for the Healthcare Commission's review of NHS foundation trust policy before putting forward further applicants for NHS foundation trust status to Monitor.

Figure 1: Growth in the numbers NHS foundation trusts



Since the successful conclusion of the Healthcare Commission's review, numbers of NHS foundation trusts have grown steadily, with Monitor authorising around two thirds of applicants at first assessment.

To date, Monitor has authorised acute hospital trusts and mental health trusts as NHS foundation trusts. In principle there is no constraint to extending the NHS foundation trust model to other types of provider.

The Department of Health has already announced that ambulance trusts will be given the opportunity to apply for NHS foundation trust status.

The Department of Health is also exploring the possibility of developing community foundation trusts to deliver local community services. Indeed, the provision of community services, which accounts for an estimated £7 billion a year, may also hold opportunities for current NHS foundation trusts to develop their services. Earlier this year, we saw the first concrete example, as South Staffordshire NHS Foundation Trust acquired the mental health and learning disability services previously delivered by Shropshire County Primary Care Trust.

The scale of the NHS foundation trust sector makes it important to millions of patients and members of the public. The innovative accountability framework for NHS foundation trusts, involving local communities, provides for many more people to have a say in their development.

NHS foundation trusts

Key to map

Authorised 1 April 2004

1 Basildon and Thurrock University Hospitals
2 Bradford Teaching Hospitals
3 Countess of Chester Hospital
4 Doncaster and Bassetlaw Hospitals
5 Homerton University Hospital
6 Moorfields Eye Hospital
7 Peterborough and Stamford Hospitals
8 Royal Devon and Exeter
9 Stockport
10 The Royal Marsden

Authorised 1 July 2004

11 Cambridge University Hospitals
12 City Hospitals Sunderland
13 Derby Hospitals
14 Gloucestershire Hospitals
15 Guy's and St. Thomas's
16 Papworth Hospital
17 Queen Victoria Hospital
18 Sheffield Teaching Hospitals
19 University College London Hospitals
20 University Hospital Birmingham

Authorised 1 January 2005

21 Barnsley Hospital
22 Chesterfield Royal Hospital
23 South Tyneside
24 Harrogate and District

Authorised 5 January 2005

25 Gateshead Health

Authorised 1 April 2005

26 Frimley Park Hospital
27 Heart of England
28 Lancashire Teaching Hospitals
29 Liverpool Women's
30 The Royal National Hospital for Rheumatic Diseases
31 The Royal Bournemouth and Christchurch Hospitals

Authorised 1 June 2005

32 Rotherham

Authorised 1 May 2006

33 Oxleas
34 South Essex Partnership
35 South Staffordshire and Shropshire Healthcare

Authorised 1 June 2006

36 Royal Berkshire
37 Salisbury
38 Southend University Hospitals
39 The Newcastle Upon Tyne Hospital
40 Yeovil District Hospital

Authorised 1 August 2006

41 Aintree University Hospitals
42 Calderdale and Huddersfield
43 Clatterbridge Centre for Oncology
44 James Paget University Hospitals
45 Luton and Dunstable Hospital
46 Northumbria Healthcare
47 Salford Royal
48 Sheffield Children's

Authorised 1 October 2006

49 Chelsea and Westminster Hospital

Authorised 1 November 2006

50 South London and Maudsley
51 Tavistock and Portman
52 University Hospital of South Manchester

Authorised 1 December 2006

53 Basingstoke and North Hampshire
54 King's College Hospital

Authorised 1 February 2007

55 County Durham and Darlington
56 Sherwood Forest Hospitals
57 Birmingham Children's Hospital
58 The Royal Orthopaedic Hospital

Authorised 1 March 2007

59 South Devon Healthcare

Authorised 1 April 2007

60 York Hospitals
61 Christie Hospital
62 Dorset Healthcare

Authorised 1 May 2007

63 Central and North West London
64 Berkshire Healthcare
65 Northern Lincolnshire and Goole Hospitals

Authorised 1 June 2007

66 Dorset County Hospital
67 Heatherwood and Wexham Park Hospital

Authorised 1 July 2007

68 Gloucestershire Partnership
69 Wirral University Teaching Hospital
70 Cheshire and Wirral Partnership

Authorised 1 August 2007

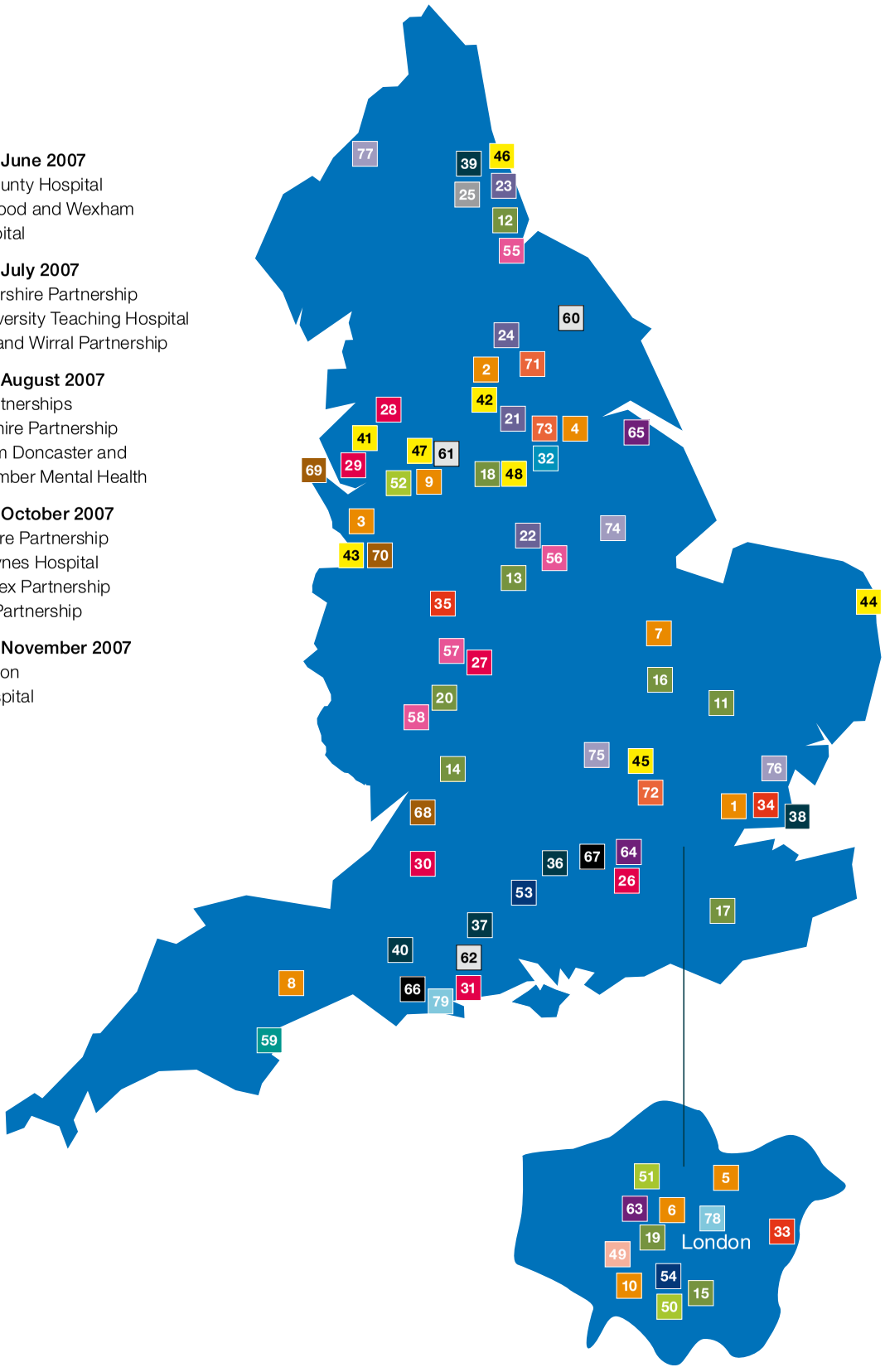
71 Leeds Partnerships
72 Hertfordshire Partnership
73 Rotherham Doncaster and South Humber Mental Health

Authorised 1 October 2007

74 Lincolnshire Partnership
75 Milton Keynes Hospital
76 North Essex Partnership
77 Cumbria Partnership

Authorised 1 November 2007

78 East London
79 Poole Hospital



The aims of the NHS foundation trust policy

NHS foundation trusts were established with the aim of improving healthcare in England. The basic premise of the NHS foundation trust policy is that healthcare will be more effective if it is run by local clinicians and managers than if centrally managed from Whitehall.

Freedoms for NHS foundation trusts

The freedoms of NHS foundation trusts are designed to help them develop their own services and improve the quality of the care they deliver.

Management freedoms

The core freedom for NHS foundation trusts is the opportunity to set their own operational strategy. While they remain public institutions, NHS foundation trusts are free from central government control. They set their own strategies and make their own decisions to improve services for patients, within the framework of their contracts with commissioners. With these freedoms come important responsibilities. Boards of NHS foundation trusts are ultimately responsible for the success or failure of their organisation; there is no safety net. This is an important cultural shift and an entirely new way of working. It fosters improved leadership, better financial management and innovation, all of which will lead to improved health services for patients.

Financial freedoms

NHS foundation trusts benefit from a number of significant financial freedoms, expanding their opportunities to develop their services and performance. These are:

- Freedom to retain and invest surpluses. NHS foundation trusts retain any surplus they make, and are able to reinvest these surpluses to improve the services they offer, instead of any surpluses generated being used to balance the books of other organisations. This creates the right incentives, rewards efficient providers, and allows local clinicians and managers to plan for and deliver service improvements.
- Freedom to retain and invest the proceeds of land or asset sales. Any resources raised through land sales are available to an NHS foundation trust to fund investment in developing its services. Traditionally the proceeds of asset sales have not benefited the NHS trust selling the asset but have been returned to the Department of Health and the Treasury. The NHS foundation trust regime provides more opportunities for hospitals to fund the development they need, and provides real incentives to manage land, estate and other assets efficiently.

- Freedom to borrow up to a limit set under Monitor's *Prudential Borrowing Code*. NHS foundation trusts have a pre-agreed borrowing limit, based on the level of borrowing they can afford to repay. They are free to borrow up to this limit to fund developments in their services. They are not required to seek Department of Health or strategic health authority approval for their investment plans, speeding up investment decisions, or to compete for limited allocations of strategic health authority capital. The only test placed on NHS foundation trust investments by Monitor is that of affordability.
- No statutory requirement to break even. NHS foundation trusts are required to operate as a going concern – a similar test to that applied in the commercial sector. Monitor produces a financial risk rating for all NHS foundation trusts based on achievement of financial plan, underlying performance, financial efficiency and liquidity.
- Freedom to develop incentives for staff outside the nationally agreed frameworks. NHS foundation trusts can develop their own tailored packages of staff incentives to best meet the needs of both their local patients and their staff.

Boards of NHS foundation trusts are ultimately responsible for the success or failure of their organisation; there is no safety net.

NHS foundation trust accountabilities

The freedoms afforded to NHS foundation trusts give them far greater opportunity to invest in and develop their services. The innovative accountability arrangements that complement NHS foundation trust freedoms ensure that NHS foundation trusts deliver improvements to meet the needs of the local community and the taxpayer.

At a local level, NHS foundation trusts are accountable to local people and their staff through their members and governors, and to the primary care trust through their contracts for providing healthcare services. Details of the membership for each individual NHS foundation trust is provided on pages 41 and 42.

Members of NHS foundation trusts can be patients, local people and employees of the trust. The members elect governors, the majority of whom are elected by patients and the public. Elected governors are joined on the board of governors by appointed governors, who represent key local stakeholders, such as the local authority or university medical schools. The board of governors plays an important role in representing the views of the local community and in holding the board of directors to account for their performance – crucially through the exercise of the board of governors' powers to appoint the chair of the NHS foundation trusts and to approve the appointment of the chief executive.

NHS foundation trusts are also accountable locally through the legally binding contracts they sign with their primary care trusts. These contracts set out the services the NHS foundation trust is required to deliver and any local performance or quality standards the NHS foundation trust is to meet. Primary care trusts, as the commissioners of services for the population, are responsible for determining the services required to meet the health needs of their population. NHS foundation trusts must be responsive to the requirements of primary care trusts and their patients and develop high quality services that meet their needs.

NHS foundation trusts are accountable nationally to Parliament and to Monitor, the Independent Regulator of NHS Foundation Trusts. Individual NHS foundation trusts lay their accounts before Parliament. The consolidated accounts attached to this report fulfil the requirement for Monitor to report to Parliament on the financial performance of the NHS foundation trust sector as a whole.

Monitor is responsible for authorising NHS foundation trusts, the design and operation of the financial and reporting regime within which they operate, and for holding NHS foundation trusts to account for compliance with the Terms of Authorisation. The Terms of Authorisation set out the requirements placed on NHS foundation trusts. These include specific performance requirements relating to finance (to operate as a going concern) and service performance (compliance with Department of Health core standards and national targets) and a number of important controls on NHS foundation trusts, designed to safeguard the interest of the taxpayer in NHS foundation trusts. The key controls are:

- a limit on borrowing determined under the *Prudential Borrowing Code*;
- a requirement to provide mandatory services. To date Monitor has treated all services commissioned by the NHS from foundation trusts as mandatory services. In effect this means that an NHS foundation trust cannot withdraw from any service without Monitor's consent. Monitor will approve alterations to the mandatory services where the proposal is supported by the primary care trust commissioning the service;

- a block on the disposal of land or assets that are required for the delivery of mandatory services; and
- A cap on the proportion of private income that an NHS foundation trust is allowed to earn. This control ensures NHS foundation trusts focus their resources on treating NHS patients.

Monitor operates a risk-based, proportionate regime to monitor compliance with the Terms of Authorisation. The regime is forward-looking and relies heavily on self-certification, a process that again underlines the responsibility of the NHS foundation trust board for managing performance and ensuring continued compliance with the Terms of Authorisation.

Where an NHS foundation trust is in significant breach of its Terms of Authorisation, Monitor has wide ranging powers of intervention to ensure performance is rectified. These powers include the ability to instruct the NHS foundation trust to do, or not to do, specified things, or to remove any or all members of the board of directors and board of governors.

Incentives for NHS foundation trusts

To drive improved performance, and to promote the use of their freedoms, NHS foundation trusts need to have the right incentives. The Government's system reform programme for the NHS, initially focused on the acute sector, has sought to embed new incentive regimes that promote continuous improvement in the quality and productivity of NHS services. Three key initiatives combine to provide the incentive regime:

- **payment by results (PbR):** NHS providers, including NHS foundation trusts, are now paid largely on the basis of a national rate or tariff for each procedure they undertake. This provides incentives to treat more patients, and, as the tariff is set with reference to the average cost of the procedure, to improve efficiency;
- **patient choice:** patients are being given more choice over the hospital they attend. By 2008 patients will be free to choose any hospital that meets NHS standards and prices. This provides incentives for hospitals to be responsive to patient's needs and concerns, to encourage patients to choose to be treated with them. As PbR means the money follows the patient, a hospital that fails to attract patients will face financial pressures as its income reduces; and
- **commissioning:** primary care trusts and GPs, through practice-based commissioning, are responsible for securing the care needed by their local populations. They will increasingly seek to purchase care from providers who offer best practice pathways as they seek to maximise health gain for their investment.

The effect of these incentives should be to promote improvements in quality of care as providers seek to respond to patients' and commissioners' needs. Providers will seek to reduce costs and generate surpluses in order to re-invest in the service improvements needed to deliver improved quality.

Review of NHS foundation trust performance in 2006-07

NHS foundation trusts have performed well in 2006-07. They delivered a surplus (post adjustments) of £134 million and improved efficiency. NHS foundation trusts also delivered improved clinical quality, with 37% of NHS foundation trusts rated as excellent by the Healthcare Commission. Monitor expects further improvements in performance as NHS foundation trusts build their management capacity and overcome their caution on investing in service improvements.

NHS foundation trusts have delivered strong financial performance

In the year to 31 March 2007, the 59 NHS foundation trusts generated a surplus (post adjustments) of £134.4 million. The adjustments exclude the effect of impairments, exceptional items and profits on disposal of fixed assets. After these items, the retained deficit for the year was £2.3 million. This can be reconciled to the consolidated accounts as shown in the table below:

Reconciliation to consolidated accounts

	2006-07 (£ million)	2005-06 (£ million)
Retained deficit for the year	(2.3)	(22.1)
Add back impairments	155.9	6.5
Add back exceptional items	2.1	6.5
Less profits on disposals of fixed assets	(21.3)	(8.9)
Surplus/(deficit) (post adjustments)	134.4	(18.0)

The surplus (post adjustments) was £108 million ahead of plan and corresponds to an income and expenditure (I&E) margin of 1.3%.

These results reflect the continuing financial strength across the sector and also in the individual NHS foundation trusts as set out in figure 2. Fifty four of the 59 NHS foundation trusts recorded a surplus (post adjustments) for the year. The surplus (post adjustments) has improved significantly from 2005-06 when the NHS foundation trusts collectively delivered a deficit of £18 million.

Definitions of key finance terms used in this section

Retained surplus/deficit

The final position of the entity after all costs, including PDC dividends.

PDC dividends

Public dividend capital is a type of public sector equity finance. The government receives a return in the form of dividends based on the value of the assets held.

Surplus/(deficit) (post adjustments)

The surplus or deficit of the entity excluding the effect of impairments, exceptional items and profits or losses on the disposal of fixed assets. This definition enables a clearer comparison with NHS trusts due to differences in accounting standards.

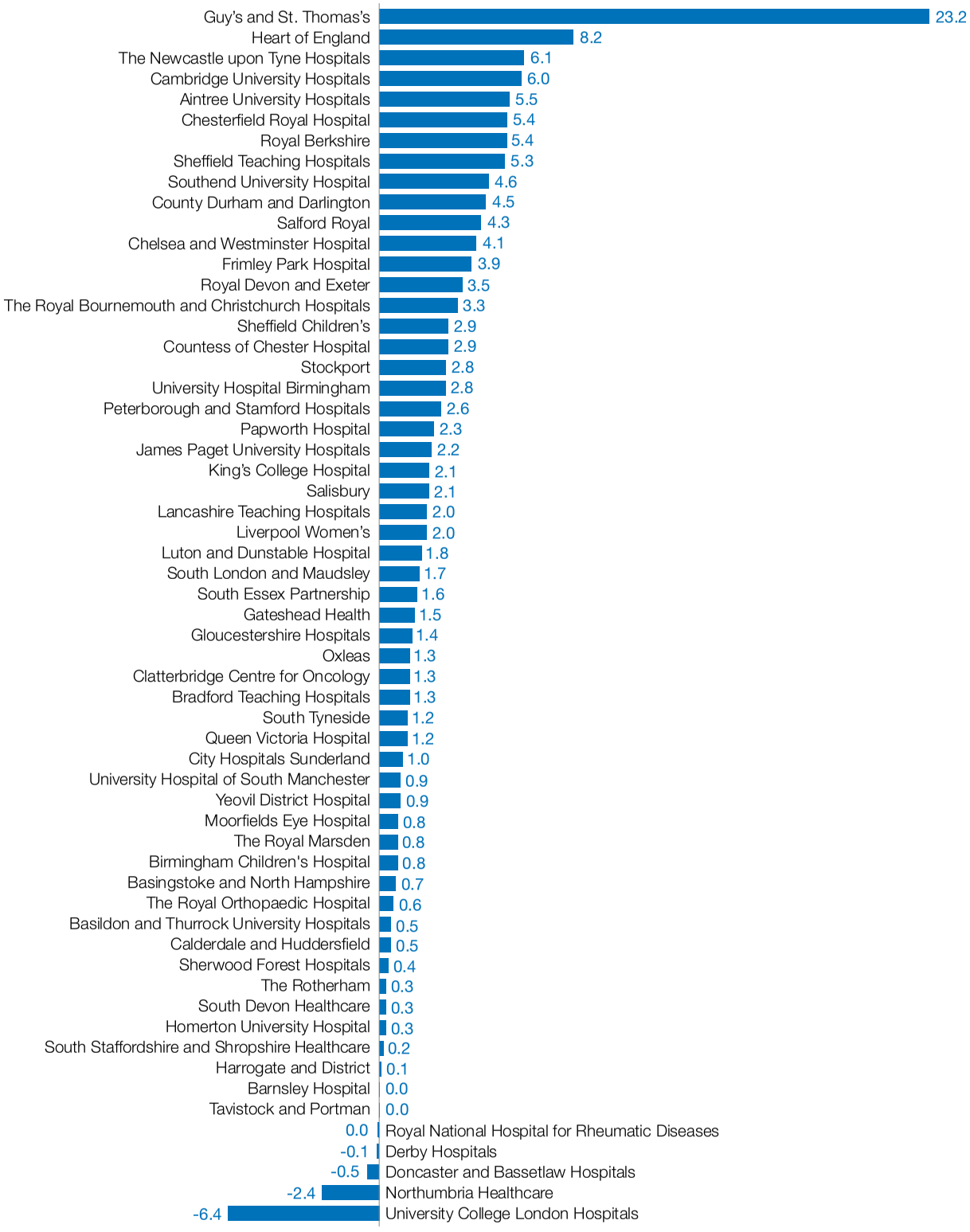
EBITDA

Earnings before interest, tax, depreciation and amortisation – a measure of profitability which excludes the effect of financing and depreciation/amortisation policies.

Impairments

Impairments occur when an asset, such as a building, is re-valued and the revised valuation differs from that currently shown on the balance sheet. This often occurs in the event of a private finance initiative (PFI) project. For an NHS foundation trust, the impairment is included in the profit and loss account; it therefore impacts the “bottom line” of the accounts. For an NHS trust, an impairment appears on the balance sheet but the full effect is not shown in the profit and loss account.

Figure 2: Surpluses and deficits (post adjustments) by NHS foundation trust (£ million) at 31 March 2007



The delivery of surpluses is important. First, organisations in sound financial health can concentrate their managerial and clinical effort on improving patient care; they are not constantly battling their deficit. Second, NHS foundation trusts are free to retain their surpluses and use them to fund improvements in patient care. Chesterfield Royal Hospital NHS Foundation Trust is just one example of how an NHS foundation trust has used the cash generated to improve services to patients (page 23).

Operating margins are improving

NHS foundation trusts are also improving their operating margins (i.e. by how much their operating income exceeds their operating costs, one measure of how efficient their operations are). Monitor uses EBITDA (earnings before income, tax, depreciation and amortisation) as a measure of operating efficiency. We believe this is a useful way of comparing NHS foundation trusts' performance as it provides a measure of the free cash flow generated by the trust which can be used for service developments.

EBITDA margins for NHS foundation trusts have improved from 5.8% in 2005-06 to 6.7% in 2006-07 as NHS foundation trusts run their services more efficiently. Again NHS foundation trusts are outperforming NHS trusts; in 2005-06, the last year for which the necessary aggregated information is available, NHS trusts' EBITDA margin was 5.0%.

Cost improvement programmes

NHS foundation trusts have delivered significant reductions in their costs:

- in 2005-06, NHS foundation trusts delivered cost improvement programmes equivalent to 2.1% of costs, ahead of the efficiency assumption included in the tariff of 1.7%;
- in 2006-07, their cost improvement programmes delivered efficiencies in line with planned savings of 3.1% of operating costs, equivalent to over £360 million. This compares with a 2.5% tariff efficiency assumption.

NHS foundation trusts continue to plan to deliver greater efficiency savings than assumed by the tariff in 2007-08, with planned cost improvement programmes of 3.0% against a 2.5% assumption in the tariff.

Figure 3: EBITDA margin by NHS foundation trust at 31 March 2007

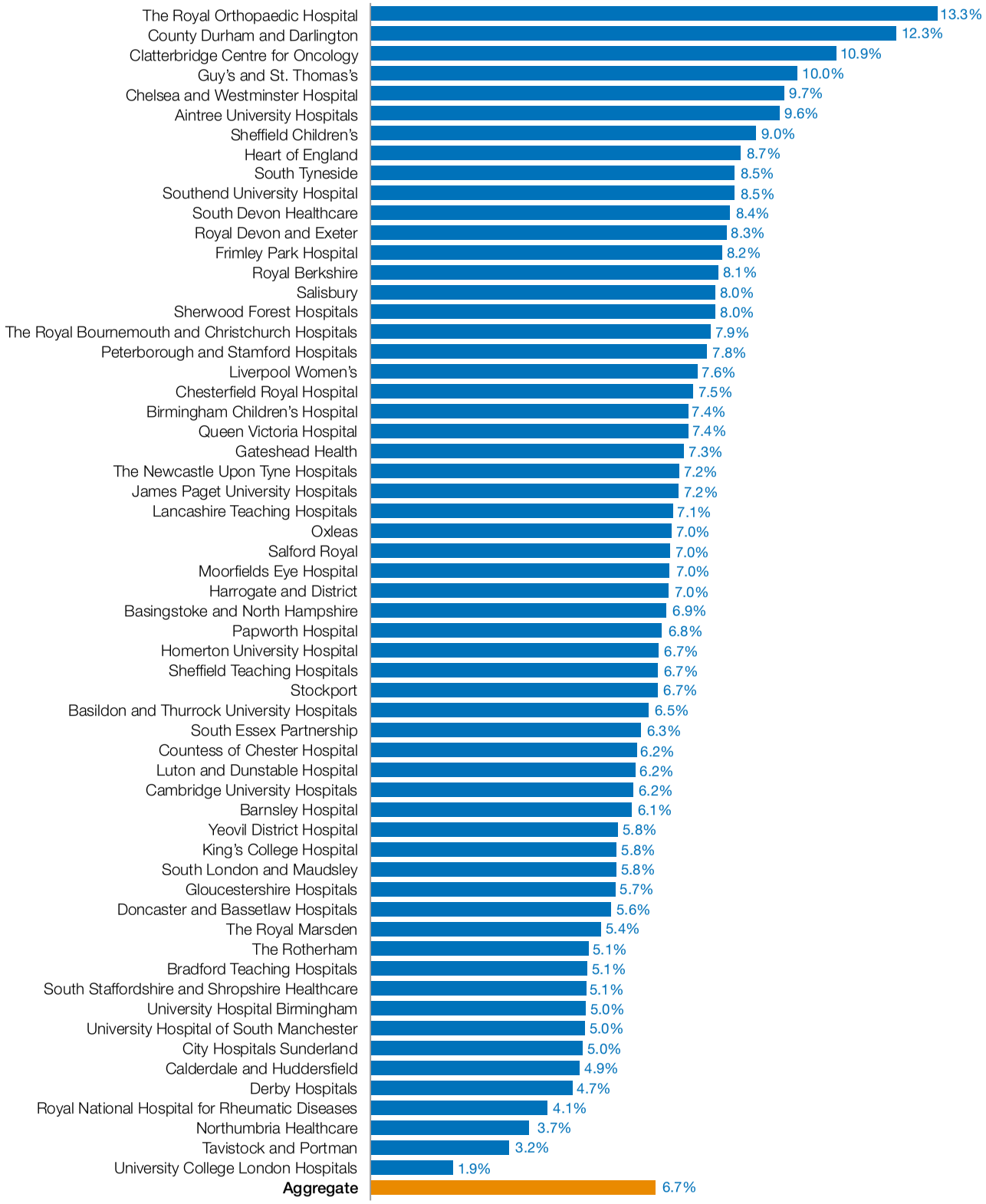


PHOTO COURTESY OF CHESTERFIELD ROYAL HOSPITAL NHS FOUNDATION TRUST

Young patients at Chesterfield Royal will benefit from the investment in services.

Using surpluses to develop patient services

Chesterfield Royal Hospital NHS Foundation Trust knew it was time to develop their specialist children's services. NHS foundation trust status gave them the opportunity to do this.

Being an NHS foundation trust means Chesterfield Royal benefits from financial freedoms, such as the ability to plan for long-term investment without long application processes for grants, alongside uncertainty about whether applications would succeed. The trust is selling old, out-dated facilities that currently house its children's services, and using the money created from the sale to offset a portion of a new £5 million development in this area. Getting engagement from the local community has been a key part of the project so far: a public governor was an integral part of the working party for this scheme and members have been involved to help develop the vision for the new unit.

Eric Morton, Chief Executive of the trust said "We have only been able to go down this route because we are a foundation trust and we can show that our members, local people, patients and their families have given it their full support. This is a fantastic opportunity to develop extra child-centred services, and provide young people with a modern and suitable environment."

Informal intervention and turnaround

Evidence of NHS foundation trusts delivering where they face real pressures to improve performance comes from those organisations that have received financial risk ratings of 2 or less and, as a result, increased monitoring from Monitor during 2006-07. Monitor's financial risk ratings reflect the likelihood of a financial breach of their Terms of Authorisation. A rating of 5 reflects the lowest level of financial risk and a rating of 1 the greatest. Partly as a result of a greater intensity of monitoring activity, we have seen NHS foundation trusts deliver financial recovery plans requiring high levels of cost improvement.

University College London Hospitals NHS Foundation Trusts (UCLH) provides an excellent example. After recording a deficit of £36 million in 2005-06, UCLH successfully implemented a financial recovery plan delivering a reduced deficit (post adjustments) of £6.4 million in 2006-07 and are currently delivering a surplus in 2007-08.

A further four NHS foundation trusts faced financial issues in 2006-07:

- Homerton University Hospital NHS Foundation Trust;
- City Hospitals Sunderland NHS Foundation Trust;
- Moorfields Eye Hospital NHS Foundation Trust; and
- Countess of Chester Hospital NHS Foundation Trust.

These four NHS foundation trusts have achieved a financial risk rating of 3 or 4 at quarter 1 in 2007-08. This indicates a significant improvement in their financial position. UCLH is expected to achieve a financial risk rating of 3 at quarter 2 2007-08.

Four NHS foundation trusts had significant governance issues in 2006-07, associated with the delivery of key healthcare targets:

- Clatterbridge Centre for Oncology NHS Foundation Trust (missed the 62-day cancer target);
- Moorfields Eye Hospital NHS Foundation Trust (missed the 31-day cancer target);
- Lancashire Teaching Hospitals NHS Foundation Trust (missed the choice and booking target); and
- Peterborough and Stamford Hospitals NHS Foundation Trust (missed three priority targets: in-patient waiting lists; out-patient waiting lists; and 62-day cancer target).

More information on trusts with both financial and governance issues in 2006-07 can be found on pages 51 to 54 of this report.

In each case, Monitor has maintained close involvement with, and oversight of, the relevant NHS foundation trust to ensure issues are addressed in a timely and effective manner, to make sure they return to full compliance with their Terms of Authorisation.

Financial recovery at Homerton University Hospital NHS Foundation Trust gives a further example of how financial pressure can provide a catalyst for the design and delivery of more efficient working practices.

PHOTO COURTESY OF HOMERTON UNIVERSITY HOSPITAL NHS FOUNDATION TRUST

A new surgical centre at Homerton University NHS Foundation Trust means more efficient patient care.

Improving efficiency

Facing financial difficulties, Homerton University Hospital NHS Foundation Trust developed a sustainable and long-term financial recovery programme.

An important part of this work was looking at how the trust could become a more efficient and productive organisation, whilst ensuring patient safety and high quality care. A focus of this work has been to treat more patients as day-or short-stay cases.

An outcome of this initiative is the opening of a new surgical centre. The new centre means that in excess of 85% of surgical patients are now seen as day cases.

The unit combines a centralised admissions area for elective patients, a step-down and discharge area for day cases and a pre-operative assessment unit.

More efficient care pathways means improved patient care. Feedback on the new surgical centre from patients and their families has been very positive. In 2006-07, the trust treated more patients with 52 fewer beds, and received the most improved patient satisfaction survey ever. And the financial position of the trust has improved, with a surplus being achieved for the year.

NHS foundation trusts have significant cash balances

The strong financial performance of NHS foundation trusts, and the impact of improved working capital management, capital expenditure timing and some significant asset sales programmes, has seen NHS foundation trusts accumulate large cash balances. At year end NHS foundation trusts held aggregate cash balances of £995[1] million, some £622 million ahead of planned levels of £373 million.

The caution shown by NHS foundation trusts in re-investing surpluses in the development of services, in the face of uncertainty over commissioners' future requirements, potential funding and other financial risks, has contributed to this build up of cash.

Performance continues to improve in 2007-08

The financial performance of NHS foundation trusts continues to improve. In quarter 1 of 2007-08 net surpluses ran at £88 million, and EBITDA margins had further improved to 7.6%, mainly as a result of payroll costs being below anticipated levels.

NHS foundation trusts deliver high quality services

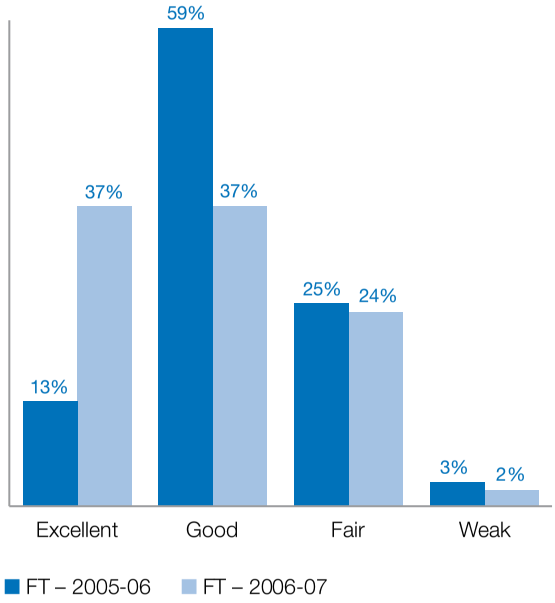
The strong financial performance of NHS foundation trusts has not been delivered at the expense of the quality of their services. The Healthcare Commission's Annual Health Check for 2006-07 once again rates NHS foundation trusts more highly for the quality of their services than it does NHS trusts.

The Healthcare Commission's Annual Health Check is the most comprehensive assessment of the quality of services offered by NHS providers. It rates all providers on the quality of service based on compliance with national standards for the quality of care and the delivery of national service targets.

In 2007, 37% of NHS foundation trusts were rated as 'excellent' for the quality of their services, and 74% were rated as 'excellent' or 'good'. This shows an improvement on the 2006 ratings when 13% of NHS foundation trusts received an 'excellent' rating.

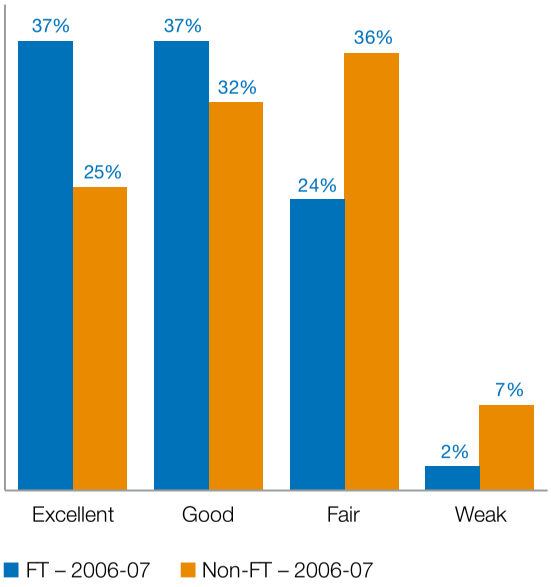
[1] Made up of £774 million cash at bank and in hand and £221 million investments classified as current assets.

Figure 4: Healthcare Commission's ratings for quality of services in NHS foundation trusts (FTs) in 2005-06 and 2006-07



As shown in figure 5, NHS foundation trusts are more highly rated than NHS trusts for the quality of their services. 25% of NHS trusts were rated 'excellent' and 57% 'excellent' or 'good', compared with 37% and 74% of NHS foundation trusts respectively.

Figure 5: Healthcare Commission's ratings for the quality of services in NHS foundation trusts (Non-FTs) and NHS trusts in 2006-07



The individual ratings for each of the 59 NHS foundation trusts authorised as at 31 March 2007 is set out in the table overleaf. 75% of these trusts improved or maintained their ratings between 2006 and 2007.

Figure 6: Healthcare Commission assessment of quality of services for each of the 59 NHS foundation trusts authorised on 31 March 2007

NHS foundation trust	2006-07	2005-06
Aintree University Hospitals	Good	Fair
Barnsley Hospital	Good	Good
Basildon and Thurrock University Hospitals	Fair	Good
Basingstoke and North Hampshire	Excellent	Fair
Birmingham Children's Hospital	Excellent	Fair
Bradford Teaching Hospitals	Good	Good
Calderdale and Huddersfield	Excellent	Good
Cambridge University Hospitals	Excellent	Good
Chelsea and Westminster Hospital	Excellent	Good
Chesterfield Royal Hospital	Excellent	Fair
City Hospitals Sunderland	Good	Excellent
Clatterbridge Centre for Oncology	Good	Fair
Countess of Chester Hospital	Fair	Good
County Durham and Darlington	Fair	Good
Derby Hospitals	Fair	Good
Doncaster and Bassetlaw Hospitals	Good	Good
Frimley Park Hospital	Excellent	Good
Gateshead Health	Good	Good
Gloucestershire Hospitals	Fair	Good
Guy's and St Thomas's	Excellent	Good
Harrogate and District	Good	Excellent
Heart of England	Excellent	Fair
Homerton University Hospital	Good	Good
James Paget University Hospitals	Fair	Fair
King's College Hospital	Excellent	Good
Lancashire Teaching Hospitals	Fair	Fair
Liverpool Women's	Excellent	Good
Luton and Dunstable Hospital	Fair	Good
Moorfields Eye Hospital	Weak	Weak
The Newcastle Upon Tyne Hospitals	Good	Good
Northumbria Healthcare	Fair	Good
Oxleas	Good	Excellent
Papworth Hospital	Excellent	Fair
Peterborough and Stamford Hospitals	Fair	Good
Queen Victoria Hospital	Excellent	Fair
The Rotherham	Good	Fair
Royal Berkshire	Fair	Good
The Royal Bournemouth and Christchurch Hospitals	Good	Fair
Royal Devon and Exeter	Good	Fair
The Royal Marsden	Excellent	Excellent
Royal National Hospital for Rheumatic Diseases	Excellent	Excellent
The Royal Orthopaedic Hospital	Good	Fair

Figure 6: Healthcare Commission assessment of quality of services for each of the 59 NHS foundation trusts authorised on 31 March 2007 (continued)

NHS foundation trust	2006-07	2005-06
Salford Royal	Excellent	Excellent
Salisbury	Fair	Fair
Sheffield Children's	Excellent	Good
Sheffield Teaching Hospitals	Excellent	Good
Sherwood Forest Hospitals	Good	Good
South Devon Healthcare	Fair	Good
South Essex Partnership	Excellent	Good
South London and Maudsley	Good	Good
South Staffordshire and Shropshire Healthcare	Excellent	Good
South Tyneside	Good	Good
Southend University Hospital	Good	Fair
Stockport	Good	Good
Tavistock and Portman	Excellent	Excellent
University College London Hospitals	Good	Good
University Hospital Birmingham	Good	Good
University Hospital of South Manchester	Fair	Good
Yeovil District Hospital	Excellent	Fair

Moorfields Eye Hospital NHS Foundation Trust is the only NHS foundation trust rated weak for quality of service. This reflects Monitor's own risk ratings for the period, which provided an early indication of governance concerns at the trust. As the regulator we have for some time been reviewing plans and progress with the trust board to ensure the situation is rectified.

As part of our compliance regime, we require the boards of NHS foundation trusts to self-certify that all core standards will be met and that boards will take action where they are non-compliant. Where appropriate, we require NHS foundation trusts to put in place action plans to ensure compliance. This is backed by our statutory powers of intervention.

In the few NHS foundation trusts which were non-compliant with core standards in 2006-07, most have now implemented action plans to ensure compliance.

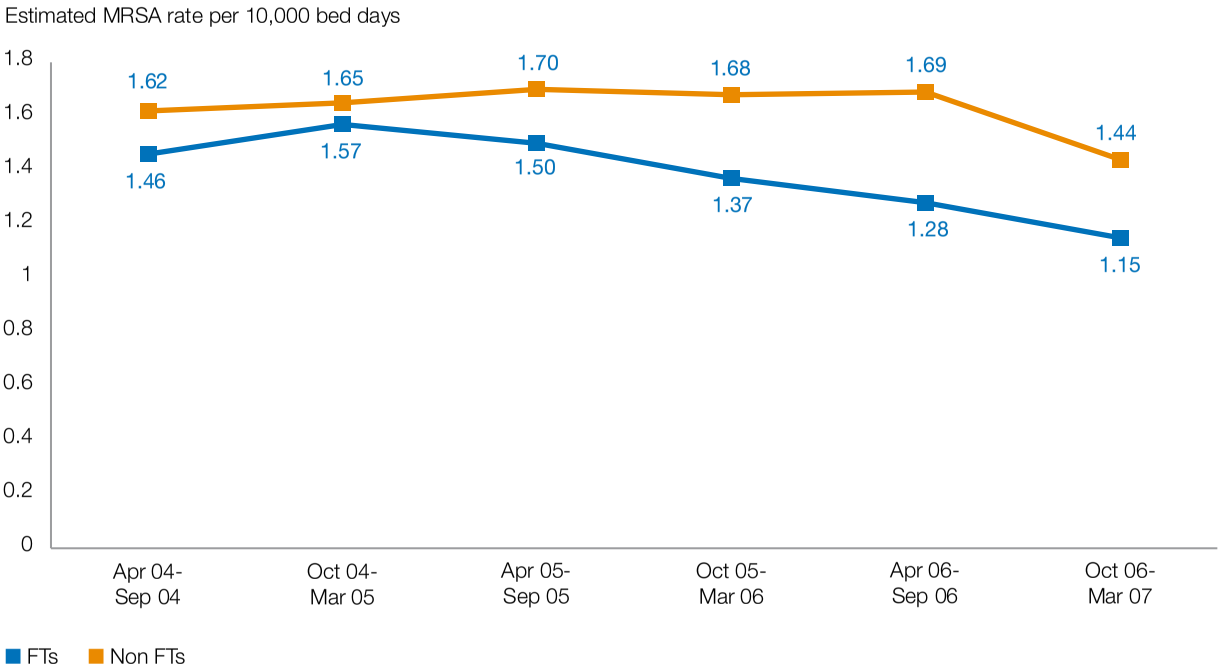
While the Healthcare Commission's Annual Health Check is the most comprehensive assessment of the quality of services offered by NHS organisations, there are also a small number of specific measures of quality of service that are worth individual attention.

Healthcare-acquired infections

Tackling healthcare-acquired infections is one of the major challenges facing the NHS and a key issue for public and patient confidence. Much effort has gone into reducing MRSA infections and, more recently, Clostridium difficile infections.

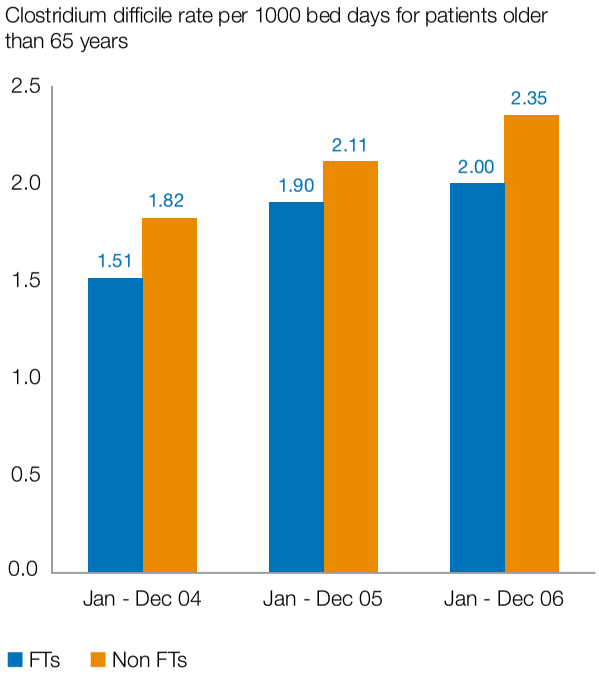
Overall NHS foundation trusts have lower rates of MRSA and Clostridium difficile infections than NHS trusts. MRSA infection rates have been falling across the NHS over the last four years, whereas Clostridium difficile rates are increasing – see figures 7 and 8 on page 30.

Figure 7: MRSA infection rates



Source: Health Protection Agency

Figure 8: Clostridium difficile infection rates



Source: Health Protection Agency

NHS foundation trusts need to continue to focus on reducing both MRSA and Clostridium difficile infections, ensuring they meet the existing target for reducing MRSA infections by 50% and the new target for a 30% reductions in Clostridium difficile.

Meeting the MRSA target remains a significant challenge. In 2006-07, 33 NHS foundation trusts failed to meet the target for reducing MRSA infections. At the end of Q1 2007, 22 NHS foundation trusts are at risk of failing to meet their MRSA trajectories for 2007-08. Monitor requires an action plan (with monthly update) from each NHS foundation trust which is at risk of failing the target.

Actions taken by Cambridge University Hospital NHS Foundation Trust show how sustained focus in this area can yield sound results.

PHOTO COURTESY OF CAMBRIDGE UNIVERSITY HOSPITALS NHS FOUNDATION TRUST

Promoting infection control (clockwise from bottom left: Hannah Wetz, volunteer of National Infection Control Week 2007, Dr Nick Brown, Consultant Medical Microbiologist, Margaret Berry, Chief Nurse, Judith Ewer, Public Governor, and Angela Thompson, Head of Standards).

Continuing the fight against MRSA

Healthcare-associated infection has been a key priority over the years for Cambridge University Hospital NHS Foundation Trust, with significant progress being made in 2006-07.

The trust has pursued its approach of continuous attention to fundamentals such as hand-washing, wound care, uniform standards and clean wards. Alongside this, it is seeking to learn from projects such as the Central Venous Access lines team. The trust has also participated in several national initiatives: the Department of Health's *Saving Lives*, a delivery programme to reduce healthcare-associated infection including MRSA, and the *Clean Your Hands* campaign, organised by the National Patient Safety Agency.

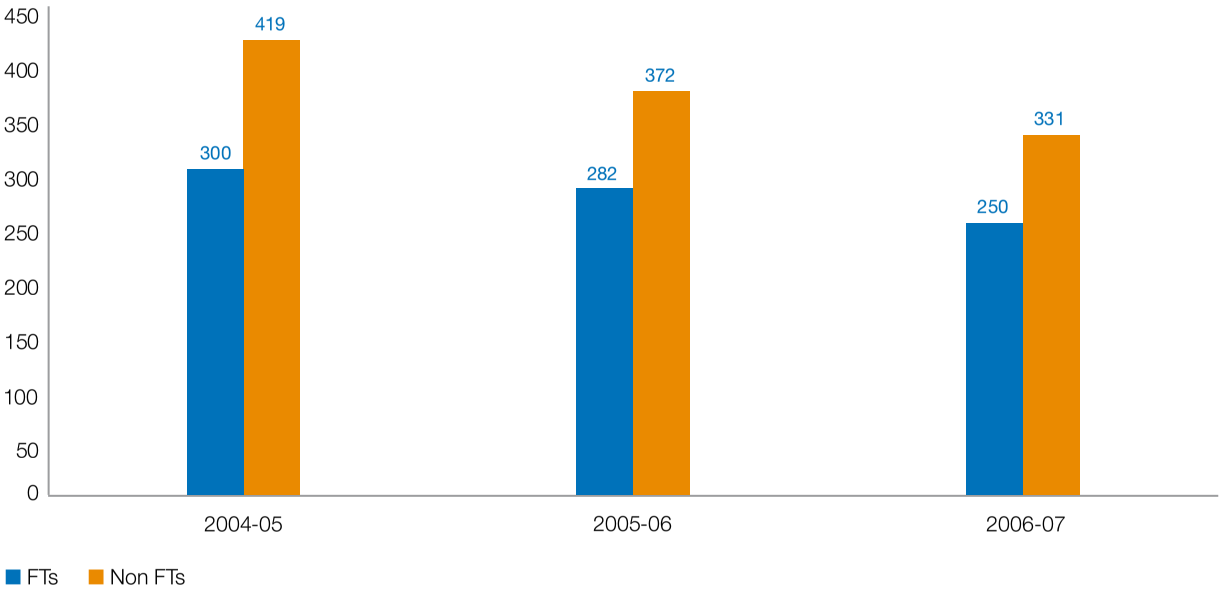
The trust's successful *Take 5! Standards for a Clean and Safe Hospital* campaign is a programme of regular audit relating to infection control and hospital cleanliness. The campaign won the Elsevier Award from the Foundation of Nursing Studies, and was praised for its robust attitude to audit, using continuous feedback to maintain and improve standards. The 'Take 5' campaign is just one example of a number of trust-wide infection control initiatives – all of which are brought together under the *Together We Can Fight Infection* campaign which was initially launched in November 2005.

This continued focus on reducing MRSA infections has meant that, in 2006-07, the Trust achieved a 28% reduction in MRSA bacteraemias, a figure which compares well with the national average of a 7% reduction. The trust is continuing to work hard to further reduce infection rates.

Access to care

Waiting times continue to be a key concern for patients. The NHS has made significant reductions in waiting times and performance by NHS foundation trusts and NHS trusts in meeting the Government's access targets has been good. There are no significant differences between NHS foundation trusts and NHS trusts on waiting times. However NHS foundation trusts do cancel fewer operations for non-clinical reasons, improving the patient experience of care (see figure 9)

Figure 9: Average number of operations cancelled per year by trusts for non-clinical reasons



Source: Department of Health. Three NHS foundation trusts excluded due to lack of data. 2004-05: 25 NHS foundation trusts. 2005-06: 32 NHS foundation trusts. 2006-07: 59 NHS foundation trusts.

Waiting times are continuing to fall as trusts work towards the 18-week from referral to treatment waiting time target for 2008. Yeovil District Hospital NHS Foundation Trust is an early achiever of this target.

PHOTO COURTESY OF YEOVIL DISTRICT HOSPITAL NHS FOUNDATION TRUST

Chief Medical Officer Sir Liam Donaldson with patient Mrs Carole Lawrence, who has benefited from Yeovil District Hospital's work on achieving 18-week waiting times.

Early achiever: meeting the 18-week from referral to treatment target

A key Government target is to ensure that every patient is treated within 18 weeks of GP referral by the end of 2008.

Yeovil District Hospital NHS Foundation Trust successfully met its ambitious goal to become one of the first hospitals in the country to achieve 18-week waiting times by 31 March 2007 – 21 months ahead of the national target date. This means that 95% of patients treated exclusively at Yeovil District Hospital had their first substantive treatment within 18 weeks of GP referral.

Improvements to services which enabled this milestone to be reached included:

- one-stop shoulder clinics – patients can see all the team in just one visit;
- pre-appointment diagnostic tests – patients and their clinicians know the results and treatment can start at the first appointment;
- plain x-rays are carried out within 24 hours of request;
- less than three weeks' wait for an MRI scan; and
- specialist nurse-led clinics in ophthalmology and orthopaedics.

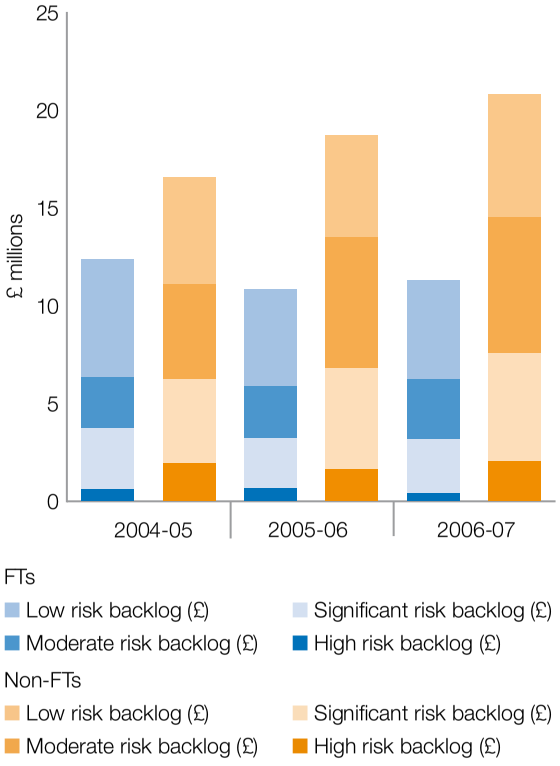
The reduction in waiting times has been set against treating 30,000 patients as inpatients or day cases. The number of people attending as outpatients grew by more than 1,000 during the year to 95,600.

Alongside its achievement in meeting this goal, the trust has continued its commitment to shared learning, working with other trusts in the local area to help them work toward meeting the 18-week target.

Condition of the estate

NHS foundation trusts report that their estates are in considerably better condition than those of NHS trusts (see figure 10). The average backlog maintenance for acute NHS foundation trusts is declining whereas in NHS trusts it is increasing, suggesting NHS foundation trusts are better able to fund the necessary maintenance work.

Figure 10: Average backlog maintenance for acute trusts



Source: The Information Centre for Health and Social Care. Excludes 14 trusts in 2004-05 and 5 trusts in 2005-06 due to lack of data.

Patient and staff satisfaction

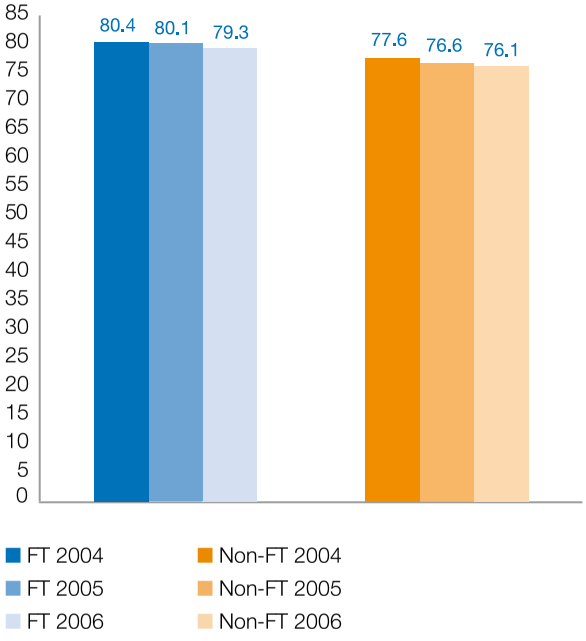
The Healthcare Commission produces annual surveys of patient and staff satisfaction. These provide a good measure of how staff and patients perceive the quality of care provided.

Patient satisfaction rates are generally very high, with three quarters of patients in 2006-07 rating their care as 'excellent' or 'very good'.

NHS foundation trust patients are marginally happier with the quality of care they receive, with 79% rating the care as 'excellent' or 'very good', compared with 76% of NHS trust patients. Previous years' surveys also show patients marginally happier with NHS foundation trust services.

Figure 11: How well patients rate the care they receive

Inpatient survey – 'Overall, how would you rate the care you have received?' Percentage of responses excellent or very good.



Source: Healthcare Commission

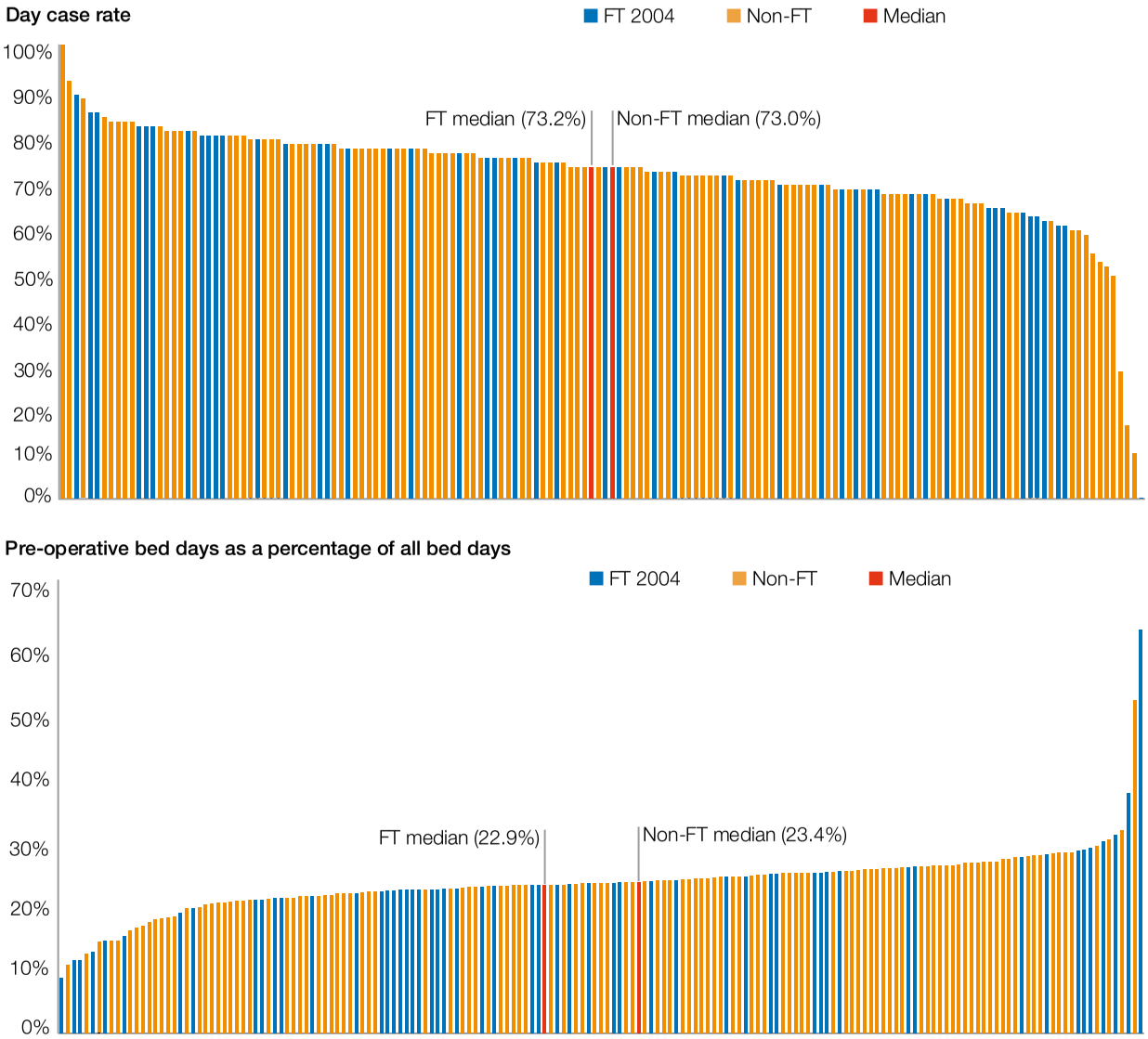
The key question asked of staff about quality of service is whether, as a patient of the trust where they work, they would be happy with the standard of care provided. Again, a greater proportion of NHS foundation trust staff agree or strongly agree with this statement than NHS trust staff, but the proportions are sobering – 51% in NHS foundation trusts, 39% in NHS trusts. This suggests that considerable improvements could be made to the quality of care on offer.

NHS foundation trusts should be capable of delivering further improvements in performance.

Despite the impressive headline achievements of NHS foundation trusts in delivering substantial cost improvement programmes and growing EBITDA margins, Monitor believes NHS foundation trusts will both be able to, and must, deliver further efficiency improvements in the coming years.

The impressive financial performance of NHS foundation trusts to date is not reflected in most measures of clinical productivity. NHS foundation trusts, as a sector, are not significantly out-performing NHS trusts on length of stay, day-case rates, pre-operative bed days or the ratio of first-to-follow-up outpatient appointments. This conclusion is based on Monitor's analysis of data from Hospital Episode Statistics and the NHS Institute for Innovation and Improvement (http://www.productivity.nhs.uk).

Figure 12: Clinical productivity in NHS foundation trusts at quarter 4 2006-07



Source: NHS Institute for Innovation and Improvement (http://www.productivity.nhs.uk). On day-case rate graph, no data available for six FTs and ten non-FTs. On the pre-operative bed days graph, no data available for three non-FTs.

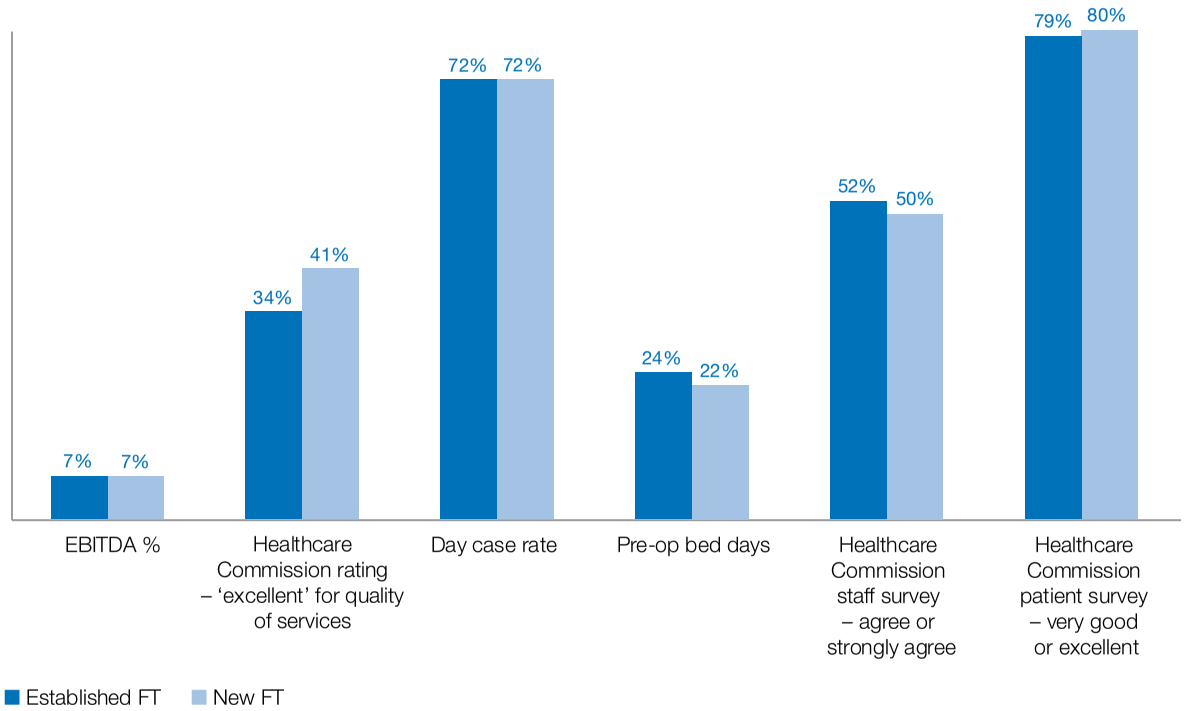
This evidence suggests that, overall, the efficiency gains achieved to date have not been driven by remodelling clinical pathways to use most efficient practice. If NHS foundation trusts were to focus on ensuring efficient clinical pathways, the scope for efficiency gains would be substantial. The interest of NHS foundation trusts in adopting service-line management techniques is supporting progress in this area, as clinicians take responsibility for managing both the quality and finances of their services. But there is clearly more to do. NHS foundation trusts will be required to make real strides towards efficient clinical pathways if they are to continue to deliver improved financial performance in the face of decreased real terms growth in health spending over the next three years (4% compared to 7% per year during 2000 to 2007).

Gaining foundation trust status is not yet driving sustained improvements in performance.

What is less clear is whether NHS foundation trusts are effectively using their freedoms to improve performance in a way that NHS trusts cannot match. Our analysis of the performance of established NHS foundation trusts and that of those authorised in 2006-07, across a range of performance and finance measures, shows no significant differences in the performance of established NHS foundation trusts and those authorised in 2006-07. This is illustrated in figure 13 below.

Our experience of authorising NHS foundation trusts points to the process of authorisation leading to a significant improvement in performance. The challenge for NHS foundation trusts is not to simply maintain this improvement

Figure 13: Comparison of performance of new and established NHS foundation trusts



Source: Healthcare Commission, NHS Institute for Innovation and Improvement and Monitor analysis.

Using the freedom to borrow money to develop services

Royal Devon and Exeter NHS Foundation Trust borrowed £15 million in 2006-07, bringing their total borrowing to £27 million. This borrowing funds a range of service improvements, including:

- extending the range of services delivered in primary care settings such as community hospitals;
- development of interim day-case capacity at Heavitree Hospital;
- expanded satellite renal capacity;
- additional linear accelerator;
- expanded endoscopy facilities;
- replacement MRI scanner;
- expanded central records department;
- IT infrastructure and development of national care record service;
- work to develop an emergency hub, with potential for further reconfiguration of services on the Wonford site; and
- rationalisation of accommodation at Heavitree Hospital.

but to exploit their freedoms to deliver sustained continuous performance improvements. We have now seen over 100 trust boards in our authorisation process. We have observed the quality of boards improving, and the start of change in behaviour that will allow boards to drive improved performance.

As NHS foundation trusts mature as organisations, we expect to see them move on from strong finances and key targets and start to make significant investment in service improvements. This should start to happen over the next 12 months, and we expect to see improvements in performance.

Investment by NHS foundation trusts

Capital expenditure of £503 million by NHS foundation trusts in 2006-07 continued to exceed depreciation (£348 million in 2006-07) suggesting that NHS foundation trusts are investing in the regeneration of their assets.

NHS foundation trusts have continued to make limited use of their borrowing facilities. As at 31 March 2007, long-term borrowing was £128.7 million. This compares with a total prudential borrowing limit (for long-term borrowing) of £2,183 million. The example above of Royal Devon and Exeter NHS Foundation Trust shows how a trust can use its borrowing powers to invest in reconfiguring patient services.

We remain concerned that a lack of clarity and certainty about commissioners' future plans is having an impact on the timing of significant investment decisions by NHS foundation trusts. We encourage boards of NHS foundation trusts to engage with commissioners to discuss future priorities for service development and then match investment to commissioners' needs. At the same time, boards should engage with their patients, governors, members and staff to consider how investments could be used to improve services.

Figure 14: Borrowing at NHS foundation trusts as at 31 March 2007

NHS foundation trust	Total long-term borrowing limit set by Monitor	2005-06 closing long term loans outstanding	2006-07 closing long term loans outstanding	Working capital facility set by Monitor	2005-06 closing working capital facility outstanding	2006-07 closing working capital facility outstanding	Total prudential borrowing limit set by Monitor
Aintree University Hospitals	45.2	-	0.0	15	-	0.0	60.2
Barnsley Hospital	13.2	0.0	0.0	8.0	0.0	0.0	21.2
Basildon and Thurrock University Hospitals	44.2	0.0	3.3	12.0	0.0	0.0	56.2
Basingstoke and North Hampshire	27.2	-	0.0	10.0	-	0.0	37.2
Birmingham Children's Hospital	29.3	-	0.0	11.4	-	0.0	40.7
Bradford Teaching Hospitals	32.2	0.0	0.0	16.5	0.0	0.0	48.7
Calderdale and Huddersfield	46.8	-	0.0	18.0	-	0.0	64.8
Cambridge University Hospitals	42.7	10.4	13.8	28.4	0.0	0.0	71.1
Chelsea and Westminster Hospital	29.9	-	14.0	18.0	-	0.0	47.9
Chesterfield Royal Hospital	29.5	0.0	0.0	10.0	0.0	0.0	39.5
City Hospitals Sunderland	18.7	5.0	7.0	18.0	2.3	0.0	36.7
Clatterbridge Centre for Oncology	11.3	-	0.0	4.0	-	0.0	15.3
Countess of Chester Hospital	10.5	0.0	0.0	10.0	0.0	0.0	20.5
County Durham and Darlington	36.0	-	0.0	22.0	-	0.0	58.0
Derby Hospitals	64.2	0.0	5.4	24.0	0.0	0.0	88.2
Doncaster and Bassetlaw Hospitals	31.9	0.0	3.4	15.0	0.0	0.0	46.9
Frimley Park Hospital	36.0	0.0	0.0	12.5	0.0	0.0	48.5
Gateshead Health	23.2	0.0	0.0	12.0	0.0	0.0	35.2
Gloucestershire Hospitals	42.9	0.0	10.4	27.0	0.0	0.0	69.9
Guy's and St. Thomas's	144.8	0.0	0.0	30.0	0.0	0.0	174.8
Harrogate and District	12.1	0.0	0.0	7.5	0.0	0.0	19.6
Heart of England	65.1	0.0	0.0	18.5	0.0	0.0	83.6
Homerton University Hospital	12.9	2.2	2.2	11.0	1.6	0.0	23.9
James Paget University Hospitals	27.5	-	0.0	10.0	-	0.0	37.5
King's College Hospital	43.2	-	0.0	25.0	-	0.0	68.2
Lancashire Teaching Hospitals	46.8	0.0	0.0	21.0	0.0	0.0	67.8
Liverpool Women's	17.2	0.0	0.0	5.0	0.0	0.0	22.2
Luton and Dunstable Hospital	18.9	-	0.0	12.0	-	0.0	30.9
Moorfields Eye Hospital	12.4	13.2	13.2	6.0	0.0	0.0	18.4
The Newcastle Upon Tyne Hospitals	129.1	-	0.0	50.0	-	0.0	179.1

Figure 14: Borrowing at NHS foundation trusts as at 31 March 2007 (continued)

NHS foundation trust	Total long-term borrowing limit set by Monitor	2005-06 closing long term loans outstanding	2006-07 closing long term loans outstanding	Working capital facility set by Monitor	2005-06 closing working capital facility outstanding	2006-07 closing working capital facility outstanding	Total prudential borrowing limit set by Monitor
Northumbria Healthcare	43.5	-	0.0	21.0	-	0.0	64.5
Oxleas	32.3	-	7.9	10.0	-	0.0	42.3
Papworth Hospital	11.0	0.0	0.0	6.0	0.0	0.0	17
Peterborough and Stamford Hospitals	25.5	0.0	0.0	12.0	0.0	0.0	37.5
Queen Victoria Hospital	10.0	0.0	0.0	3.0	0.0	0.0	13
Royal Berkshire	51.3	-	0.0	15.0	-	0.0	66.3
The Royal Bournemouth and Christchurch Hospitals	26.8	0.0	0.0	9.0	0.0	0.0	35.8
Royal Devon and Exeter	68.0	12.0	27.0	18.0	0.0	0.0	86
The Royal Marsden	35.1	0.0	0.0	10.0	0.0	0.0	45.1
Royal National Hospital for Rheumatic Diseases	1.8	0.0	0.0	1.0	0.0	0.0	2.8
The Royal Orthopaedic Hospital	11.6	-	0.0	4.0	-	0.0	15.6
The Rotherham	29.2	0.0	0.0	10.8	0.0	0.0	40
Salford Royal	32.3	-	0.0	17.0	-	0.0	49.3
Salisbury	32.0	-	0.0	13.0	-	0.0	45
Sheffield Children's	17.7	-	0.0	6.5	-	0.0	24.2
Sheffield Teaching Hospitals	146.7	0.0	0.0	46.0	0.0	0.0	192.7
Sherwood Forest Hospitals	39.1	-	0.0	15.0	-	0.0	54.1
South Devon Healthcare	23.6	-	0.0	15.0	-	0.0	38.6
Southend University Hospital	26.9	-	0.0	15.0	-	0.0	41.9
South Essex Partnership	14.0	-	0.0	8.0	-	0.0	22
South London and Maudsley	63.2	-	0.0	25.0	-	0.0	88.2
South Staffordshire and Shropshire Healthcare	15.3	-	0.0	12.0	-	0.0	27.3
South Tyneside	20.6	0.0	0.0	7.0	0.0	0.0	27.6
Stockport	45.0	16.0	21.0	10.0	0.0	0.0	55
Tavistock and Portman	3.6	-	0.0	1.8	-	0.0	5.4
University College London Hospitals	77.0	0.0	0.0	30.0	0.0	0.0	107
University Hospital Birmingham	77.1	0.0	0.0	28.5	0.0	0.0	105.6
University Hospital of South Manchester	41.2	-	0.0	22.0	-	0.0	63.2
Yeovil District Hospital	16.5	-	0.0	5.0	-	0.0	21.5
	2,182.8	**58.8**	**128.7**	**884.4**	**3.9**	**0.0**	**3,067.2**

Acquisitions by NHS foundation trusts

In April 2007 we saw the first example of an acquisition by an NHS foundation trust, when the Heart of England NHS Foundation Trust acquired Good Hope Hospitals NHS Trust.

A second acquisition followed, with the acquisition of the mental health and learning disability services of Shropshire County Primary Care Trust by South Staffordshire NHS Foundation Trust to become South Staffordshire and Shropshire Healthcare NHS Foundation Trust.

It is possible that we will see growing numbers of acquisitions by NHS foundation trusts in future, as NHS foundation trusts seek to leverage their increasingly professional management and financial strength, and the NHS as a whole seeks to tackle long standing financial weaknesses in NHS providers.

Growing a representative membership to develop services

The membership of an NHS foundation trust is a distinctive feature of its governance arrangements and forms a direct link with the patients, members of public, staff and local stakeholders.

NHS foundation trusts are required to take steps to grow their membership and ensure it is representative of the communities they serve. The total number of members increased from 471,203 at 31 March 2006 to 766,206 at 31 March 2007 (see figure 15). The 32 NHS foundation trusts which were established on 31 March 2006 had increased their membership by 50,788 at 31 March 2007, a 10.8% increase.

Increasingly, NHS foundation trusts are engaging their governors and members in a wide range of programmes and initiatives. The example of Oxleas NHS Foundation Trust on page 43 shows the value of this engagement.

Monitor takes the development of a representative membership and effective governors very seriously. We are currently undertaking a comprehensive study to establish how boards of governors operate in practice and how they fulfil their accountability and representative roles. We intend to use the findings to develop good practice material to support the development of effective boards of governors.

Figure 15: membership at NHS foundation trusts

	Total membership as at 31/3/06	Total membership as at 31/3/07	Of which: Public[2]	Staff	Patient
Aintree University Hospitals	–	9,989	4,449	4,296	1,244
Barnsley Hospital	12,602	12,781	9,749	3,032	–
Basildon and Thurrock University Hospitals	12,069	13,016	8,575	4,441	–
Basingstoke and North Hampshire	–	4,318	3,280	1,038	–
Birmingham Children's Hospital	–	5,029	826	2,561	1,642
Bradford Teaching Hospitals	4,221	9,639	4,425	4,760	454
Calderdale and Huddersfield	–	7,933	7,038	895	–
Cambridge University Hospitals	23,597	22,845	8,293	6,920	7,632
Chelsea and Westminster Hospital	–	13,287	6,982	5,898	407
Chesterfield Royal Hospital	13,346	13,176	10,063	3,113	–
City Hospitals Sunderland	9,129	9,096	3,371	4,626	1,099
Clatterbridge Centre for Oncology	–	4,203	3,465	738	–
Countess of Chester Hospital	4,266	7,638	4,426	3,212	–
County Durham and Darlington	–	8,246	2,683	5,563	–
Derby Hospitals	13,994	15,330	8,536	6,794	–
Doncaster and Bassetlaw Hospitals	7,870	8,471	2,874	5,260	337
Frimley Park Hospital	7,671	9,291	7,302	1,989	–
Gateshead Health	11,171	12,307	9,018	3,289	–
Gloucestershire Hospitals	14,609	13,965	12,124	902	939
Guy's and St. Thomas's	13,368	14,828	3,653	8,102	3,073
Harrogate and District	13,557	13,662	12,782	880	–
Heart of England	51,038	77,291	67,078	6,400	3,813
Homerton University Hospital	5,968	5,701	4,326	1,375	–
James Paget University Hospitals	–	13,126	9,759	3,367	–
King's College Hospital	–	13,749	3,875	5,856	4,018
Lancashire Teaching Hospitals	14,592	20,241	6,954	5,903	7,384
Liverpool Women's	10,693	9,725	9,049	676	–
Luton and Dunstable Hospital	–	8,775	5,146	3,629	–
Moorfields Eye Hospital	11,487	11,007	8,374	1,305	1,328
Northumbria Healthcare	–	15,487	9,432	6,055	–
Oxleas	–	3,951	1,271	1,897	783
Papworth Hospital	11,690	11,475	10,773	702	–
Peterborough and Stamford Hospitals	8,523	8,671	5,321	3,350	–
Queen Victoria Hospital	12,864	12,511	11,706	805	–
Royal Berkshire	–	10,491	5,896	4,595	–
Royal Devon and Exeter	15,639	19,519	13,588	5,931	–
Royal National Hospital for Rheumatic Diseases	4,612	5,232	911	344	3,977
Salford Royal	–	8,158	3,913	4,245	–

[2] For a number of NHS foundation trusts this column shows public and patient figures combined.

Figure 15: membership at NHS foundation trusts (continued)

	Total membership as at 31/3/06	Total membership as at 31/3/07	Of which: Public[2]	Staff	Patient
Salisbury	–	10,949	9,091	1,223	635
Sheffield Children's	–	6,523	2,677	1,650	2,196
Sheffield Teaching Hospitals	18,168	18,727	2,608	12,671	3,448
Sherwood Forest Hospitals	–	14,227	9,488	4,739	–
South Devon Healthcare	–	22,236	18,610	3,626	–
South Essex Partnership	–	9,058	6,973	2,085	–
South London and Maudsley	–	3,082	900	1,581	601
South Staffordshire and Shropshire Healthcare	–	6,226	2,274	3,469	483
South Tyneside	4,981	5,291	3,128	2,163	–
Southend University Hospital	–	13,809	3,446	4,203	6,160
Stockport	11,938	14,216	10,484	3,732	–
Tavistock and Portman	–	3,279	2,820	459	–
The Newcastle Upon Tyne Hospitals	–	8,347	5,474	2,873	–
The Rotherham	5,502	8,173	4,808	3,365	–
The Royal Bournemouth and Christchurch Hospitals	14,990	14,238	13,287	951	–
The Royal Marsden	4,893	4,732	1,043	2,353	1,336
The Royal Orthopaedic Hospital	–	3,018	2,236	782	–
University College London Hospitals	10,194	12,334	859	6,600	4,875
University Hospital Birmingham	91,961	86,862	55,920	7,054	23,888
University Hospital of South Manchester	–	9,473	3,280	5,377	816
Yeovil District Hospital	–	7,246	6,488	758	–
	471,203	**766,206**	**477,180**	**206,458**	**82,568**

[2] For a number of NHS foundation trusts this column shows public and patient figures combined.

Oxleas NHS Foundation Trust's Governors' Council, with Dave Mellish, Chairman (fourth from the right), and Stephen Firn, Chief Executive (seated front centre).

Governors and members: their role in improving the patient experience

Although Oxleas has only been an NHS foundation trust since May 2006, their members and governors are already making a difference to the organisation and to people using their services.

"We already had an active Service User Council, and so were used to working with our service users to shape the way mental health and learning disability services developed" said Dave Mellish, the trust's Chairman, "Involving the Governors' Council at an early stage of our business planning cycle is a natural progression of that."

The Governors' Council Membership Committee wrote to all members, canvassing opinions about priorities for the trust and its services, and inviting members to a series of focus groups. The results were then aggregated to produce the priorities for the trust. Commenting on the outcome, Stephen Firn, Chief Executive said: "What was extremely interesting was that the top three priorities for our members matched the top three priorities in mental health policy: social inclusion; improving access to psychological therapies; and, improving access to crisis teams."

All the priorities were included in the trust's business plan for 2007-08 and action plans developed. Progress on the action plans will be evaluated by the Board and the Governors' Council in December 2007, together with drafting a list of priorities for the next round of business planning for 2008-09.

Foreword to accounts

The Independent Regulator of NHS Foundation Trusts (Monitor) is responsible for authorising, monitoring and regulating NHS foundation trusts and was established under 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 consolidating act, the National Health Service Act 2006 (the Act).

Paragraph 25(6)(a) of Schedule 7 the Act requires newly authorised NHS foundation trusts to prepare accounts for the period beginning with the date on which they are authorised and ending with the following 31 March and submit them to Monitor. These accounts must be audited by auditors appointed by each NHS foundation trust's board of governors.

Paragraph 11(3) of Schedule 8 to the Act requires Monitor to prepare a report which provides an overall summary of the accounts of NHS foundation trusts, lay this before Parliament and send a copy to the Secretary of State for Health. There is no specification as to the nature of this summary and no requirement for an audit of this summary. However, in order to ensure the transparency and accuracy of its report, Monitor has prepared a full consolidation of the accounts of NHS foundation trusts for its report and has requested the Comptroller and Auditor General to audit the consolidated account presented in this report. As far as Monitor's accounting officer, William Moyes, is aware, there is no relevant audit information of which the entity's auditors are unaware. The accounting officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 59 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2007. The dates of authorisation of these 59 NHS foundation trusts and period of inclusion in the consolidated accounts presented in this report are as follows.

Authorised 1 April 2004 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2006

- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Bradford Teaching Hospitals NHS Foundation Trust
- Countess of Chester Hospital NHS Foundation Trust
- Doncaster and Bassetlaw Hospitals NHS Foundation Trust
- Homerton University Hospital NHS Foundation Trust
- Moorfields Eye Hospital NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Royal Devon and Exeter NHS Foundation Trust
- Stockport NHS Foundation Trust
- The Royal Marsden NHS Foundation Trust

Authorised 1 July 2004 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2006

- Cambridge University Hospitals NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Gloucestershire Hospitals NHS Foundation Trust
- Guy's and St Thomas' NHS Foundation Trust
- Papworth Hospital NHS Foundation Trust
- Queen Victoria Hospital NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- University College London Hospitals NHS Foundation Trust
- University Hospital Birmingham NHS Foundation Trust

Authorised 1 January 2005 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2006

- Barnsley Hospital NHS Foundation Trust
- Chesterfield Royal Hospital NHS Foundation Trust
- Harrogate and District NHS Foundation Trust
- South Tyneside NHS Foundation Trust

Authorised 5 January 2005 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2006

- Gateshead Health NHS Foundation Trust

Authorised 1 April 2005 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2006

- Frimley Park Hospital NHS Foundation Trust
- Heart of England NHS Foundation Trust
- Lancashire Teaching Hospitals NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust
- The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust

Authorised 1 June 2005 and consolidated for the year ended 31 March 2007 and the ten-month period ended 31 March 2006

- The Rotherham NHS Foundation Trust

Authorised 1 May 2006 and consolidated for the 11-month period ended 31 March 2007

- Oxleas NHS Foundation Trust
- South Essex Partnership NHS Foundation Trust
- South Staffordshire and Shropshire Healthcare NHS Foundation Trust

Foreword to accounts

Authorised 1 June 2006 and consolidated for the ten-month period ended 31 March 2007

- Royal Berkshire NHS Foundation Trust
- Salisbury NHS Foundation Trust
- Southend University Hospitals NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust

Authorised 1 August 2006 and consolidated for the eight-month period ended 31 March 2007

- Aintree University Hospitals NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Clatterbridge Centre for Oncology NHS Foundation Trust
- James Paget University Hospitals NHS Foundation Trust
- Luton and Dunstable Hospital NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Salford Royal NHS Foundation Trust
- Sheffield Children's NHS Foundation Trust

Authorised 1 October 2006 and consolidated for the six-month period ended 31 March 2007

- Chelsea and Westminster Hospital NHS Foundation Trust

Authorised 1 November 2006 and consolidated for the five-month period ended 31 March 2007

- South London and Maudsley NHS Foundation Trust
- Tavistock and Portman NHS Foundation Trust
- University Hospital of South Manchester NHS Foundation Trust

Authorised 1 December 2006 and consolidated for the four-month period ended 31 March 2007

- Basingstoke and North Hampshire NHS Foundation Trust
- King's College Hospital NHS Foundation Trust

Authorised 1 February 2007 and consolidated for the two-month period ended 31 March 2007

- County Durham and Darlington NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Birmingham Children's Hospital NHS Foundation Trust
- The Royal Orthopaedic Hospital NHS Foundation Trust

Authorised 1 March 2007 and consolidated for the 31-day period ended 31 March 2007

- South Devon Healthcare NHS Foundation Trust

Consolidated results for the year ended 31 March 2007

In aggregate, NHS foundation trusts made a surplus after taxation for the year ended 31 March 2007 of £230 million. As part of their financial duties NHS foundation trusts are required to pay a dividend to the Department of Health in respect of the public capital they utilise. After the payment of this dividend NHS foundation trusts made a deficit of £2.3 million for the year ended 31 March 2007. This figure includes the effect of impairments, exceptional items and profits on disposal of fixed assets. If these items are excluded, the 59 NHS foundation trusts generated a surplus (post adjustments) of £134.4 million. The following table provides a reconciliation of these figures.

	2006-07 (£ million)	2005-06 (£ million)
Retained deficit for the year	(2.3)	(22.1)
Add back impairments	155.9	6.5
Add back exceptional items	2.1	6.5
Less profits on disposals of fixed assets	(21.3)	(8.9)
Surplus/(deficit) (post adjustments)	134.4	(18.0)

Pages 18 to 43 set out a review of the NHS foundation trusts' development during the year.

Dr William Moyes
Executive Chairman
9 November 2007

Statement of responsibilities and accountability framework

Dr William Moyes is the Executive Chairman of Monitor. In this capacity, under paragraph 11(3) of Schedule 8 to the National Health Services Act 2006, he is responsible for ensuring that Monitor prepares a report which provides an overall summary of the accounts of NHS foundation trusts to lay before Parliament. He is not the accounting officer for each individual NHS foundation trust; this is the role of each NHS foundation trust chief executive. Monitor is responsible for determining, with the approval of HM Treasury, the form of accounts that each NHS foundation trust must adopt. This is codified within the *NHS Foundation Trust Financial Reporting Manual* (FT FReM), which is based on the HM Treasury's *Financial Reporting Manual* (FReM).

The manual specifically requires:

- the application of suitable accounting policies on a consistent basis;
- judgements and estimates to be made on a reasonable basis;
- a statement within the accounts as to whether applicable accounting standards have been followed, and to disclose and explain any material departures; and
- the preparation of the accounts on a going concern basis.

In discharging its responsibilities under Paragraph 11(3) of Schedule 8 to the Act, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trust accounts, and consolidated in accordance with UK Generally Accepted Accounting Practice.

Statements on internal control

Monitor's system of internal control is designed to support the achievement of Monitor's policies, aims and objectives. As part of this system, Monitor has established the following processes to ensure these accounts provide a true and fair view of the NHS foundation trust sector:

- obtaining expertise in accounts preparation for the consolidation;
- providing guidance to NHS foundation trusts and their auditors, including consolidation processes. This has been approved by HM Treasury;
- establishing the Technical Issues Forum, to which senior representatives from the National Audit Office, the Audit Commission, the Department of Health, HM Treasury and from each of the audit suppliers appointed as auditors of NHS foundation trusts are invited. The forum members discuss technical audit and accounting issues relating to NHS foundation trusts. The forum's terms of reference and minutes are published on Monitor's website;
- ensuring consistent financial reporting and audit;
- relying on the external auditors appointed by each NHS foundation trust's board of governors to ensure the accuracy and fairness of each set of accounts that have been consolidated into these accounts. These auditors have each undertaken an audit in accordance with the *Audit Code* for *NHS Foundation Trusts*, issued by Monitor;
- the appointment of the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consideration of their findings;
- the appointment of the Comptroller and Auditor General to undertake an audit of the consolidated accounts presented in this report; and
- consideration by Monitor's management and Audit Committee of the consolidated accounts and the processes established to derive them.

The Board of Monitor is not accountable for the internal control of NHS foundation trusts; this is the responsibility of each NHS foundation trust's board. As accounting officer, the chief executive of each NHS foundation trust has responsibility for maintaining a sound system of internal control that supports the achievement of that NHS foundation trust's policies, aims and objectives. In addition the chief executive has responsibility for safeguarding public funds and the organisation's assets as set out in the *NHS Foundation Trusts' Accounting Officer Memorandum.*

Each NHS foundation trust's annual report and accounts, which they lay before Parliament, includes a statement on internal control for the year ended 31 March 2007. These statements confirmed that all the NHS foundation trusts had systems of internal control in place for the financial year 2006-07 and up to the dates of approval of their annual reports and accounts. Each individual statement on internal control explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues, where the risk cannot be effectively controlled.

Statements on internal control

Overview of internal control systems within NHS foundation trusts

Individual NHS foundation trusts have acknowledged that internal control issues contributed to some difficulties in meeting key healthcare targets during the year.

These issues are taken into consideration when Monitor assigns governance risk ratings. Our governance ratings range from 'green', where governance arrangements comply with the Terms of Authorisation; through 'amber' where concerns exist; to 'red' where there is a significant breach of the Terms of Authorisation.

In quarter four 2006-07, amber governance risk ratings were assigned to 34 trusts due to concerns over meeting healthcare targets and national core standards. The main areas for breach of targets were: a failure to meet MRSA year-on-year reductions; waiting time in accident and emergency; and, the 62-day cancer wait from urgent referral to treatment.

Where an NHS foundation trust has failed to comply with a key healthcare target over three consecutive quarters, it is rated red for governance risk. During the year, three trusts were rated red for this reason:

- Clatterbridge Centre for Oncology NHS Foundation Trust missed the 62-day cancer wait from urgent referral to treatment;
- Moorfields Eye Hospital NHS Foundation Trust missed the 31-day cancer wait from diagnosis to treatment; and
- Lancashire Teaching Hospitals NHS Foundation Trust missed the choice and booking target.

Peterborough and Stamford Hospitals NHS Foundation Trust missed three key healthcare targets (in-patient waiting lists, out-patient waiting lists and 62-day cancer waits) in quarter four 2006-07, and as a result was also rated red for governance. In quarter three 2006-07, the same trust received a red governance rating due to a significant number of breaches of the six-month waiting time target for orthopaedic procedures.

The ongoing achievement of all healthcare targets and national core standards is one of the terms under which NHS foundation trusts are authorised. NHS foundation trusts failing to meet these targets are required to provide effective action plans to Monitor in each case, to address these breaches of the Terms of Authorisation.

Monitor remains concerned not only about the failure by some NHS foundation trusts to meet this requirement for a limited number of targets and national core standards, but also about the overly optimistic expectations and subsequently inaccurate predictions made by some NHS foundation trust boards as part of their annual plans and quarterly returns.

Monitor believes that boards of NHS foundation trusts should not only consider the direct action required to ensure that their trusts achieve all healthcare targets and national core standards, but also look carefully at the processes and systems by which they consider and report as to their anticipated achievement in the future.

As indicated in our recent report, *NHS Foundation Trusts: Annual Plans for 2007-08*, if the divergence between board expectations and actual compliance with healthcare targets and national core standards continues, we will

require that independent advisors check the quality of the information and analysis provided to NHS foundation trust boards and whether the downside risks have been properly considered by those boards in their decision to self-certify.

During 2006-07, NHS foundation trusts have improved their management of financial pressures within the NHS, with relatively few and smaller financial deficits compared to the previous year. In the main, where required, financial recovery plans have been successfully developed and implemented.

Generally NHS foundation trusts have reported continued improvement in their internal control systems during 2006-07, including:

- increased use of service-line reporting to identify areas of concern and service-line management beginning to be used to direct and deliver financial strategies;
- further development of a risk-based approach to the identification and early rectification of potential problems; and
- recruitment of executive and non-executive directors with strong financial and other management skills.

As in the previous year, in 2006-07 the majority of NHS foundation trusts reported continued focus on further development of internal control systems, including:

- further enhancement and embedding of new IT systems; and
- system improvements to contribute to the achievement of key healthcare targets including MRSA year-on-year reductions, cancer and other waiting times.

Review of individual statements on internal control

The following NHS foundation trusts experienced significant internal control issues during the year, as reflected in either their financial or governance risk ratings. These issues are split between governance and financial matters.

Governance

Clatterbridge Centre for Oncology NHS Foundation Trust

Waiting times are a critical indicator of success in terms of improving access for patients. In the final three quarters of 2006-07, the trust achieved 99% (target 98%) for the 31-day from decision to treat to first treatment target for all cancers and 85% (target 95%) against the 62-day urgent referral to first treatment target for all cancers. An action plan continues to be implemented to improve the performance against the 62-day waiting time target.

Members of the executive team met with representatives of the Healthcare Commission in early July 2007 and agreed a revised threshold to allow for clinical exceptions associated with being a specialist tertiary centre, receiving some clinically complex cases once all other treatment options have been exhausted. In quarter one of 2007-08, the trust returned to a green risk rating for governance having met the revised threshold.

Moorfields Eye Hospital NHS Foundation Trust

The trust identified the need for a board level Director of Operations position as a result of performance failures in 2005-06. The Director of Nursing took on this role (Director of Nursing and Operations) in early 2006-07 with direct responsibility for performance against key targets.

Statements on internal control

The trust reported that further improvements were made to reporting processes with the directors of Nursing and Operations, Planning, and Corporate Governance, signing off any external performance reports. A new post – Head of Nursing and Governance – provides clinical governance leadership for the nursing staff.

As a result of the board assessment process, the trust has reported that improvements are being made to the clinical governance and leadership arrangements across the trust.

Notwithstanding this, the trust received a red governance risk rating in quarters three and four 2006-07, due to breaches of healthcare targets.

The trust has now put in place a plan to transfer responsibility for oncology services to another trust during quarter three 2007-08 to address the cancer waiting breaches. In addition, the trust reports that more rigorous management systems are in place to reduce the risk of breaches of other key healthcare targets.

Lancashire Teaching Hospitals NHS Foundation Trust

In its annual accounts, the trust reported that there were no significant internal control issues or gaps in control identified in 2006-07.

Monitor accepts that the trust's failure to comply with the requirement to fully implement choice and booking for inpatient, day-case and outpatients, which gave rise to a red governance rating in 2006-07, was to a significant extent outside the control of the trust. However, some ongoing issues about other targets, including waiting list management into 2007-08, has given rise to concern about the trust's governance processes and procedures. Discussions continue between Monitor and the trust Board to ensure the trust's plans for managing the risks relating to the delivery of all healthcare targets are properly understood and addressed going forwards, and that board reporting processes and procedures are in place to support this.

Peterborough and Stamford Hospitals NHS Foundation Trust

The trust was allocated a red governance risk rating for the third quarter of 2006-07 as a result of reporting a substantial number of patients waiting in excess of six months for orthopaedic treatment (breaching the national waiting time standard) and a significant failure in its management of the trust's orthopaedics waiting list.

The trust conducted a detailed investigation into this matter, with external and independent oversight from advisors. The matter was also reported to the Healthcare Commission, with the trust declaring non-compliance on core standard C18 (equal access, and choice in access, to services). The investigation work has already led to a number of major management and governance changes being effected, and it is anticipated that the work will also lead to a further series of recommendations which the board has considered and acted upon. The trust's external auditors have separately undertaken further review work and testing in 2007-08 on behalf of the board.

Regular reporting and meetings with Monitor have also taken place since February 2007, and these continue to ensure that board processes and procedures are in place to manage current and future risks relating to the delivery of effective governance and compliance with all healthcare targets in the future.

Financial

Monitor's financial risk ratings reflect the likelihood of a financial breach of the Terms of Authorisation. A rating of 5 reflects the lowest level of financial risk and a rating of 1 the greatest.

University College London Hospitals NHS Foundation Trust

As reported in last year's accounts, 2005-06 saw the opening of a new hospital on Euston Road, together with a major programme of system developments, service reprovision and estate rationalisation. These challenges put pressure on the internal controls and management processes within the trust. Monitor confirmed that the trust was at that time failing to exercise its functions in an effective, efficient and economic way and the failing was significant.

At the start of 2006-07, a financial recovery plan (FRP) was put into place to address control weaknesses and improve financial management. The FRP was designed to ensure that the trust returned to surplus within two years. In 2006-07 the trust delivered against its financial targets and this continues into 2007-08. Following publication of its annual accounts for 2006-07 and Monitor's assessment of its 2007-08 annual plan, the trust is no longer in significant breach of its terms of authorisation.

Homerton University Hospital NHS Foundation Trust

The trust ended 2005-06 with a small financial deficit. Action was taken to reduce costs, but the financial pressure continued into 2006-07. At the start of 2006-07, the trust's board identified the potentially worsening financial position as a significant risk. A financial recovery plan was put into place and this has resulted in a significantly improved financial position, achieving a small surplus in 2006-07. As part of the trust's recovery plan, specific action was taken to improve financial performance and liquidity. By the end of the year, the financial risk rating of the trust had improved to 4.

City Hospitals Sunderland NHS Foundation Trust

The key risks during 2006-07, and continuing into 2007-08, relate to the trust's financial position and the underlying issues around service configuration and viability. The trust is seeking to manage the position through its '2008' programme and a cost driver review project. Stringent cash flow management has been, and will continue to be, a high priority. The trust has experienced a number of significant cost pressures during the year and has taken action to mitigate their impact and to reverse the overall deficit. The trust is continuing to work to address the underlying financial issues and to stabilise its financial position.

Moorfields Eye Hospital NHS Foundation Trust

There was a material change in the trust's financial risk rating during the year and, as a result and to reflect this, Monitor reduced the trust's borrowing limit in December 2006 in accordance with the *Prudential Borrowing Code (PBC) for NHS Foundation Trusts*.
An independent review of the trust's finances and governance was commissioned, and in accordance with recommendations of that report, the trust appointed an interim Director of Strategy. The trust has since implemented its financial recovery plan, improving on the planned

Statements on internal control

surplus for the year by 6.3%. This result would have resulted in the trust achieving its planned financial risk rating of 4; however an inadvertent technical breach of the *Prudential Borrowing Code (PBC) for NHS Foundation Trusts* by the trust resulted in the application of an over-ride rule, reducing the trust's financial risk rating to 2 at quarter four 2006-07.

Countess of Chester Hospital NHS Foundation Trust

The trust planned for a deficit in 2006-07. Monthly meetings with Monitor commenced and external advisors were appointed by the trust to assist with the development of a cost improvement strategy. By the end of 2006-07 the trust had secured the best possible rating of 5 for its financial performance in the year.

Dr William Moyes
Executive Chairman
9 November 2007

The certificate of the Comptroller and Auditor General to the Independent Regulator of NHS Foundation Trusts

I certify that I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2007 in accordance with the letter of engagement dated 19 August 2005. These comprise the income and expenditure account, the balance sheet, the cashflow statement and statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set by the Independent Regulator of NHS Foundation Trusts (Monitor), in line with the *NHS Foundation Trust Financial Reporting Manual*, and described within the accounts.

Respective responsibilities of the Independent Regulator of NHS Foundation Trusts and auditor

Monitor is responsible under the National Health Services Act 2006 for preparing a report which provides an overall summary of the accounts of NHS foundation trusts. As described on page 48, in discharging its responsibilities under paragraph 11(3) of Schedule 8 to the Act, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trust accounts, and consolidated in accordance with UK Generally Accepted Accounting Practice. Monitor is also responsible for preparation of the contents of the review.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the accounting policies set out within them. I also report to you whether, in my opinion, certain information given in the review, which comprises the foreword to accounts, is consistent with the financial statements.

In addition, I report to you if Monitor has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I am not required to form an opinion on the effectiveness of the corporate governance procedures or risk and control procedures of either Monitor or individual NHS foundation trusts.

I read the other information contained in the review and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The certificate of the Comptroller and Auditor General to the Independent Regulator of NHS Foundation Trusts

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by Monitor in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the circumstances of the NHS foundation trust sector, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS foundation trust sector as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements have been properly prepared in accordance with the accounting policies set out within them; and
- information given within the review which comprises the foreword to accounts is consistent with the financial statements.

John Bourn
Comptroller and Auditor General
14 November 2007

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

Financial statements and notes

Consolidated income and expenditure account year ended 31 March 2007

	Note	2006-07 (£ million)	Restated 2005-06 (£ million)
Income from activities	3.1	8,720.5	5,689.7
Other operating income	3.2	1,422.9	1,073.8
Impairments		(155.9)	(6.5)
Other operating expenses	4.1	(9,808.9)	(6,627.0)
Operating surplus		**178.6**	**130.0**
Exceptional items	6	(2.1)	(6.5)
Profit on disposal of fixed assets	7	21.3	8.9
Surplus before interest		**197.8**	**132.4**
Interest receivable		39.1	18.8
Interest payable	8	(4.9)	(1.4)
Other finance costs – unwinding of discount	17	(1.8)	(0.9)
Other finance costs – change in discount rate on provisions	17	0.0	(3.3)
Surplus before taxation		**230.2**	**145.6**
Taxation		(0.2)	(0.1)
Surplus after taxation		**230.0**	**145.5**
Public dividend capital (PDC) payable	18	(232.3)	(167.6)
Retained deficit for the year		**(2.3)**	**(22.1)**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

All operations are continuing.

The notes on pages 61 to 91 form part of these accounts.

Financial statements and notes

Consolidated balance sheet as at 31 March 2007

	Note	2006-07 (£ million)	Restated 2005-06 (£ million)
Fixed Assets			
Intangible assets	9	29.5	12.7
Tangible assets	10.1	8,856.2	5,318.2
Total fixed assets		**8,885.7**	**5,330.9**
Current assets			
Stocks and work in progress	11	173.0	97.2
Debtors amounts due within one year	12	679.0	414.1
Debtors amounts due after one year	12	195.2	70.6
Investments	13	221.0	52.4
Cash at bank and in hand		773.7	259.1
Total current assets		**2,041.9**	**893.4**
Creditors			
Amounts falling due within one year	14	(1,352.6)	(759.2)
Net current assets / (liabilities)		**689.3**	**134.2**
Total assets less current liabilities		**9,575.0**	**5,465.1**
Long term creditors			
Amounts falling due after more than one year	14	(158.9)	(79.1)
Provision for liabilities and charges	17	(212.6)	(103.8)
Total assets employed		**9,203.5**	**5,282.2**
Financed by taxpayers' equity			
Public dividend capital (PDC)	19	5,616.2	3,204.5
Revaluation reserve	20	2,706.2	1,599.7
Donated asset reserve	20	553.0	423.4
Other reserves	20	8.7	7.8
Income and expenditure reserve	20	319.4	46.8
Total taxpayers' equity	**18**	**9,203.5**	**5,282.2**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

The notes on pages 61 to 91 form part of these accounts.

Dr William Moyes
Executive Chairman
9 November 2007

Consolidated statement of total recognised gains and losses year ended 31 March 2007

	Note	2006-07 (£ million)	Restated 2005-06 (£ million)
Surplus for the financial year before dividend payments		230.0	145.5
Fixed asset impairment losses	20	(8.3)	(11.3)
Unrealised surplus on fixed assets and current asset investments revaluations	20	88.7	15.5
Increase in the donated asset reserve due to receipt of donated assets	20	41.3	50.6
Reductions in the donated asset reserve due to depreciation, impairment, and/or disposal of donated assets	20	(30.4)	(24.1)
Additions/(reductions) in 'Other reserves'	20	0.0	0.6
Other recognised gains and losses	20	(3.3)	(5.6)
Total recognised gains and losses for the financial year		**318.0**	**171.2**
Prior period adjustments	22	(13.3)	
Total recognised gains and losses since the last financial year		**304.7**	

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

The notes on pages 61 to 91 form part of these accounts.

Financial statements and notes

Consolidated cash flow statement year ended 31 March 2007

	Note	2006-07 (£ million)	2005-06 (£ million)
Net cash inflow from operating activities	21.1	**745.3**	**392.8**
Returns on investment and servicing of finance			
Interest received		38.8	18.8
Interest paid		(3.4)	(1.8)
Interest element of finance lease rental payments		(1.3)	0.0
Net cash inflow from returns on investments and servicing of finance		**34.1**	**17.0**
Taxation paid		**(0.2)**	**0.0**
Capital expenditure			
(Payments) to acquire tangible fixed assets		(508.4)	(382.7)
Receipts from sale of tangible fixed assets		168.8	57.6
(Payments) to acquire intangible assets		(12.3)	(6.9)
Net cash outflow from capital expenditure		**(351.9)**	**(332.0)**
Dividends paid		(251.1)	(168.1)
Net cash inflow/(outflow) before management of liquid resources and financing		**176.2**	**(90.3)**
Management of liquid resources			
(Purchase) of current asset investments		(1,576.2)	(491.0)
Sale of current asset investments		1,427.8	475.2
Net cash outflow from management of liquid resources		**(148.4)**	**(15.8)**
Net cash inflow/(outflow) before financing		**27.8**	**(106.1)**
Financing			
New public dividend capital received		270.9	155.6
Public dividend capital repaid	19	(9.9)	(21.5)
Loans received from Foundation Trust Financing Facility		58.2	52.1
Other loans received		34.0	8.2
Loans repaid to Foundation Trust Financing Facility		(3.0)	(3.3)
Other loans repaid		(30.0)	(6.4)
Other capital receipts		32.1	65.7
Capital element of finance lease rental payments		(0.2)	0.0
Net cash inflow from financing		**352.1**	**250.4**
Increase in cash	21.2	**379.9**	**144.3**

The notes on pages 61 to 91 form part of these accounts.

Notes to the accounts

1. Accounting policies

Accounting convention

This account has been prepared under the historical cost convention modified to include the revaluation of fixed assets at their value to the business by reference to their current costs. NHS foundation trusts, in compliance with HM Treasury's Financial Reporting Manual, are not required to comply with FRS 3 requirements to report "earnings per share" or historical cost profits and losses.

The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Basis of consolidation

This account aggregates the accounts of all NHS foundation trusts, using the principles of UK Generally Accepted Accounting Practice (UK GAAP) for consolidation. It presents the aggregated results of the NHS foundation trust sector, eliminating all inter-NHS foundation trust balances and transactions. Monitor is not the parent undertaking for NHS foundation trusts, and its results are not incorporated within these accounts, but are laid separately before Parliament.

NHS foundation trusts have been included within these accounts using the acquisition method of accounting as if they were wholly owned subsidiaries even though Monitor is not the parent undertaking. Accordingly, the income and expenditure and the statement of cash flows include the results and cash flows of the NHS foundation trusts from the date of authorisation for each organisation. The opening balance is nil, with the assets and liabilities being brought into the balance sheet on the day of transfer at the carrying value for the NHS trust unless materially different to fair value. No such adjustments were necessary in 2006-07.

Monitor has directed NHS foundation trusts, in accordance with paragraphs 24 and 25 of Schedule 7 to the Act, to apply the accounting requirements of the *NHS Foundation Trust Financial Reporting Manual 2006-07 (FT FReM)*, which has been approved by HM Treasury. The accounting policies contained within the *FT FReM* are broadly consistent with those specified in HM Treasury's *Financial Reporting Manual 2006-07 (FReM)*, which itself follows UK GAAP, to the extent that it is meaningful and appropriate in the public sector context. The *FT FReM's* divergences from the *FReM* are listed on Monitor's website, and have been designed to ensure an appropriate financial reporting framework for the NHS foundation trust sector. HM Treasury's Financial Reporting Advisory Board have approved these limited divergences. The *FT FReM* has also been used in preparing this consolidated account.

NHS foundation trusts are not required to comply with FRS 3 regarding historical profits and losses.

Prior year comparatives

The prior year comparative figures relate only to those NHS foundation trusts that became foundation trusts in 2004-05 or 2005-06. For those foundation trusts that were authorised in 2005-06, the comparatives are only for the financial period from the date of authorisation up until 31 March 2006. The prior year figures are not, therefore, directly comparable with current year figures. The results of NHS foundation trusts

Notes to the accounts

that were authorised in 2006-07 are not shown separately from the results of the existing NHS foundation trusts and there are no prior year comparatives for these bodies.

Acquisitions and discontinued operations

Activities are considered to be 'discontinued' where they meet all of the following conditions:

a) the sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;

b) if a termination, the former activities have ceased permanently;

c) the sale or termination has a material effect on the nature and focus of the reporting NHS foundation trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in its continuing operations; and

d) the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Activities acquired by NHS foundation trusts are treated as such whether or not they are acquired from outside the public sector. The activities, results and cash flows of NHS foundation trusts are aggregated with effect from the date of authorisation for each NHS foundation trust. They are not treated as acquired activities in these aggregated accounts.

Operations not satisfying these conditions are classified as continuing.

Income recognition

Income is accounted for applying the accruals convention. The main source of income for the NHS foundation trusts is under contracts from commissioners in respect of healthcare services. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

Expenditure

Expenditure is accounted for applying the accruals convention. The costs of operating leases are charged to the income and expenditure account on a straight-line basis over the term of the lease.

Pooled budgets

Some of the NHS foundation trusts have entered into a pooled budget with local authorities. Under the arrangement, funds are pooled under Section 75 of the Act for 2006-07 activities and a memorandum note to the accounts provides details of the joint income and expenditure. The foundation trusts account for their own share of the pooled budget's income and expenditure and assets and liabilities, as the pooled budget is not an entity in its own right.

Tangible and intangible fixed assets

Intangible assets are capitalised when they are capable of being used in a trust's activities for more than one year; they can be valued; and they have a cost of at least £5,000. Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the

estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods when events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer software licences are amortised over the shorter of the term of the licence and the useful economic life.

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they:

- individually have a cost of at least £5,000; or
- form a group of assets which individually have a cost of more than £250, collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial setting-up cost of a new building or refurbishment of a ward or unit, irrespective of their individual or collective cost.

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value each year. The carrying values of tangible fixed assets are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable.

All land and buildings are restated to current value using professional valuations every five years, in accordance with FRS 15. A three-yearly interim valuation is also carried out. Professional valuations are conducted by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. The last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005. The revaluation undertaken at that date has been accounted for on 31 March 2005. The valuations are carried out primarily on the basis of depreciated replacement cost for specialised operational property and existing use value for non-specialised operational property, including land for existing use. Additional alternative open market value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal. All impairments resulting from price changes are charged to the statement of total recognised gains and losses. If the balance on the revaluation reserve is less than the impairment, the difference is taken to the income and expenditure account. Assets in the course of construction are valued at cost and are included as part of the valuation exercise once they are brought into use. Residual interests in off-balance sheet private finance initiative properties are included in assets under construction within tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in the fair value of the

Notes to the accounts

residual as estimated at the start of the contract and at the balance sheet date. Operational equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at the net recoverable amount.

Depreciation, amortisation and impairments

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land, and assets surplus to requirements. Assets in the course of construction and residual interests in off-balance sheet private finance initiative (PFI) contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively. Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the district valuer. Leaseholds are depreciated over the primary lease term. Equipment is depreciated on the current cost evenly over the estimated life.

Fixed asset impairments resulting from losses of economic benefits are charged to the income and expenditure account. All other impairments are taken to the revaluation reserve and reported in the statement of total recognised gains and losses to the extent that there is a balance on the revaluation reserve in respect of the particular asset.

Taxation

The Finance Act 2004 amended Section 519A Income and Corporation Taxes Act 1998 to provide power to the Treasury to make certain non-core activities of NHS foundation trusts potentially subject to corporation tax.

This legislation became effective from 5 September 2005. A provision has been made in the income and expenditure account for the payment of corporation tax.

Investments

Investments in subsidiary undertakings, associates and joint ventures are treated as fixed asset investments and valued at open market value. Fixed asset investments are reviewed annually for impairments. Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cash flow statement. These assets and other current assets are valued at cost less any amounts written off to represent impairments in value and are reviewed annually for impairments.

Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Donated fixed assets are valued and depreciated as described earlier for purchased assets. Gains and losses on revaluations are also taken to the donated asset reserve and, each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the income and expenditure account.

Similarly, any impairment on donated assets charged to the income and expenditure account is matched by a transfer from the donated asset reserve.

On sale of donated assets, the net book value of the donated asset is transferred from the donated asset reserve to the income and expenditure reserve.

Private finance initiative (PFI) transactions

The NHS follows HM Treasury's Technical Note 1 (revised) *How to Account for PFI Transactions* which provides definitive guidance for the application of application note F to FRS 5. Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the trust has contributed land and buildings, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the income and expenditure account. Where, at the end of the PFI contract, a property reverts to the trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset. Where the balance of risk and rewards of ownership of the PFI property are borne by the trust, it is recognised as a fixed asset along with the liability to pay for it, which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

Cash, bank and overdrafts

Cash, bank and overdraft balances are recorded at the current values of these balances in the NHS foundation trusts' cash books. These balances exclude monies held in the NHS foundation trusts' bank accounts belonging to patients (see "third party assets"). Account balances are set off only where a formal agreement has been made with the bank to do so. In all other cases, overdrafts are disclosed within creditors. Interest earned on bank accounts and interest charged on overdrafts is recorded as, respectively, "interest receivable" and "interest payable", in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

Research and development

Expenditure on research is not capitalised. Expenditure on development is capitalised if it meets the following criteria:

- there is a clearly defined project;
- the related expenditure is separately identifiable;
- the outcome of the project has been assessed with reasonable certainty as to:
  – its technical feasibility;
  – its resulting in a product or service which will eventually be brought into use;
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Notes to the accounts

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible, NHS foundation trusts disclose the total amount of research and development expenditure charged in the income and expenditure account separately. However, where research and development activity cannot be separated from patient care activity it cannot be identified and is therefore not separately disclosed.

Fixed assets acquired for use in research and development are amortised over the life of the associated project.

Provisions

NHS foundation trusts provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk-pooling scheme under which each NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed in Note 17 to the Accounts.

Non-clinical risk pooling

NHS foundation trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk-pooling schemes under which the NHS foundation trusts pay an annual contribution to the NHSLA and in return receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses when the liability arises.

Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for NHS foundation trusts to identify their share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme under FRS 17.

The scheme is subject to a full valuation every four years by the Government Actuary. The last valuation took place as at 31 March 2003. The last published valuation relates to the period 1 April 1994 to 31 March 1999. Between valuations, the Government Actuary provides an update of the scheme's liabilities. The latest estimate of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the NHS Pension Scheme (England

and Wales) annual report and accounts. These accounts can be viewed on the NHS Pensions website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office. The notional surplus of the scheme is £1.1 billion as per the latest scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. Employers' pension cost contributions are charged to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary.

At the last valuation on which contributions were rebased (31 March 1999) employer contribution rates from 2003-04 were set at 14% of pensionable pay. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay. The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three years pensionable pay is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971 and are based on changes in retail prices in the months ending 30 September in the previous calendar year.

On death, a pension of 50% of the member's pension is normally payable to the surviving spouse. Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity.

A death gratuity of twice final year pensionable pay for death in service, and up to five times their annual pension for death after retirement is payable. The scheme provides the opportunity for members to increase benefits through the purchase of additional voluntary contributions (AVCs) provided by an approved panel of life companies. Under the arrangement employees can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time an NHS foundation trust commits itself to the retirement, regardless of the method of payment. The pension payments for the period are charged to the income and expenditure accounts. Details are included in note 5.4 to the accounts.

Value added tax (VAT)

Most of the activities of the NHS foundation trusts are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes to the accounts

Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the income and expenditure account.

Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the NHS foundation trusts have no beneficial interest in them. However, they are disclosed in a note to the accounts in accordance with the requirements of the FT FReM.

Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS foundation trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the income and expenditure account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the income and expenditure account on a straight-line basis over the term of the lease.

Public dividend capital (PDC)

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities i.e. the net assets of a public benefit corporation. A charge, reflecting the forecast cost of capital utilised by the NHS foundation trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant net assets.

Financial instruments

An NHS foundation trust may hold any of the following financial assets and liabilities:

Assets:

- investments;
- long-term debtors and accrued income; and
- short-term debtors and accrued income.

Liabilities:

- loans and overdrafts;
- long term creditors;
- provisions arising from contractual arrangements; and
- finance lease obligations.

All other financial instruments are held for the sole purpose of managing the cash flow of an NHS foundation trust on a day-to-day basis or arise from the operating activities of the NHS foundation trust. The management of risks around these financial instruments therefore relates primarily to the trust's overall arrangements for managing risks to their financial position.

2. Income – segmental information

	2006-07 Healthcare (£ million)	2006-07 Other (£ million)	2006-07 Total (£ million)	Restated 2005-06 (£ million)
Income from activities	8,720.5	0.0	8,720.5	5,689.7
Other operating income	1,419.7	3.2	1,422.9	1,073.8
Total income	**10,140.2**	**3.2**	**10,143.4**	**6,763.5**
Surplus before interest and common costs	198.0	0.0	198.0	132.4
Common costs	(0.2)	0.0	(0.2)	0.0
Surplus before interest	**197.8**	**0.0**	**197.8**	**132.4**
Total assets employed	**9,201.8**	**1.7**	**9,203.5**	**5,282.2**

The prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

3.1 Income from activities

	2006-07 (£ million)	Restated 2005-06 (£ million)
Elective income	1,937.6	1,324.3
Non-elective income	2,545.3	1,858.3
Outpatient income	1,417.2	1,015.6
Other type of activity income	2,446.4	1,304.0
A & E income	271.1	204.4
Payment by results PbR (clawback)/relief	(21.1)	(115.3)
Private patient income	124.0	98.4
Total	**8,720.5**	**5,689.7**

The prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

Notes to the accounts

3.2 Other operating income

	2006-07 (£ million)	Restated 2005-06 (£ million)
Research and development	171.4	119.2
Education and training	539.8	419.2
Charitable and other contributions to expenditure	25.3	16.8
Transfers from the donated asset reserve in respect of depreciation, impairment and disposal of donated assets	30.4	24.1
Non-patient care services to other bodies	267.2	203.6
Other	388.8	290.9
Total	**1,422.9**	**1,073.8**

The prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

4.1 Operating expenses

	2006-07 (£ million)	Restated 2005-06 (£ million)
Services from NHS trusts	101.7	80.7
Services from other NHS bodies	101.7	91.7
Purchase of healthcare from non-NHS bodies	47.6	19.6
Executive directors costs	37.5	23.3
Non executive directors costs	4.8	2.7
Staff costs	6,245.4	4,208.4
Drug costs	746.8	505.2
Supplies and services - clinical	927.5	624.3
Supplies and services - general	204.4	125.5
Establishment	130.2	91.4
Research and development	5.5	3.5
Transport	35.6	22.6
Premises	530.8	348.0
Bad debts	21.4	28.1
Depreciation and amortisation	347.6	240.9
Audit fees	4.2	2.6
Other auditors remuneration	0.9	0.3
Clinical negligence	103.1	76.0
Net increase in provisions	70.3	41.9
Other	141.9	90.3
Total	**9,808.9**	**6,627.0**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

The fee for the audit of these consolidated accounts is included in the accounts of Monitor.

4.2 Hire and operating lease rentals

	2006-07 (£ million)	Restated 2005-06 (£ million)
Hire of plant and machinery	25.4	11.2
Other operating lease rentals	76.0	39.8
Total	**101.4**	**51.0**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

NHS foundation trusts are committed to make the following payments during the next year in respect of operating leases.

	Land and buildings (£ million)	Other (£ million)
Expiring within one year	3.9	6.9
Expiring between one and five years	5.8	32.4
Expiring after five years	89.7	10.2
Total	**99.4**	**49.5**

5.1 Staff costs

	2006-07 Total (£ million)	2006-07 Permanently employed (£ million)	2006-07 Other (£ million)	2005-06 (£ million)
Salaries and wages	5,139.6	5,074.8	64.8	3,459.3
Social security costs	406.9	403.6	3.3	269.4
Employers' contribution to NHSPA	576.5	572.9	3.6	380.8
Other pension costs	1.1	1.1	0.0	0.2
Agency and contract staff	177.0	0.0	177.0	132.5
Total	**6,301.1**	**6,052.4**	**248.7**	**4,242.2**

In Note 4.1 Operating Expenses, £18.2 million of staff costs are included under 'Services from NHS trusts', 'Services from other NHS bodies' and 'Research and development' (2005-06: £10.5 million).

Notes to the accounts

5.2 Average number of total staff

	2006-07 Total	2006-07 Permanently employed	2006-07 Other	2005-06
Medical and dental	24,124	22,703	1,421	13,318
Administration and estates	44,085	42,954	1,131	25,366
Healthcare assistants and other support staff	25,431	24,830	601	14,743
Nursing, midwifery and health visiting staff	76,797	74,911	1,886	43,513
Nursing, midwifery and health visiting learners	1,073	1,061	12	1,055
Scientific, therapeutic and technical staff	31,727	31,258	469	18,000
Social care staff	253	111	142	22
Bank and agency staff	3,496	0	3,496	3,436
Other	3,030	3,006	24	2,542
Total	**210,016**	**200,834**	**9,182**	**121,995**

5.3 Staff benefits

The amount spent on staff benefits during the year totalled £2.2 million (2005-06: £0.2 million).

5.4 Pensions

NHS foundation trusts participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the provisions of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS foundation trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury. For 2006-07, the contribution rate was 14% (2005-06: 14%).

5.5 Retirements due to ill health

During 2006-07 there were 311 early retirements on the grounds of ill-health (2005-06: 175). The estimated additional pension liability of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £17.9 million (2005-06: £8.6 million).

6. Exceptional items

	2006-07 (£ million)	2005-06 (£ million)
City Hospitals Sunderland NHS Foundation Trust: costs associated with voluntary severance scheme, forming part of the trust's financial recovery plan	(0.5)	0.0
Stockport NHS Foundation Trust: new injury benefit obligation	(1.1)	0.0
Royal Bournemouth & Christchurch Hospitals NHS Foundation Trust: recovery of doubtful debt provided for in prior year	2.9	0.0
University College London Hospitals NHS Foundation Trust: costs of fundamental restructuring	(3.4)	0.0
Lancashire Teaching Hospitals NHS Foundation Trust: repayment of financial loss made operating as NHS trust	0.0	(2.9)
University Hospital Birmingham NHS Foundation Trust: accelerated depreciation for new hospital build	0.0	(3.6)
Total	**(2.1)**	**(6.5)**

7. Profit/(loss) on disposal of fixed assets

	2006-07 (£ million)	2005-06 (£ million)
Profit on disposal of land and buildings	27.8	15.7
(Loss) on disposal of land and buildings	(2.8)	(5.7)
Profit on disposal of other tangible fixed assets	0.0	0.2
(Loss) on disposal of other tangible fixed assets	(3.7)	(1.3)
Total	**21.3**	**8.9**

Notes to the accounts

8. Interest payable

	2006-07 (£ million)	2005-06 (£ million)
Bank overdrafts and loans	3.5	1.2
Finance leases	1.3	0
Other	0.1	0.2
Total	**4.9**	**1.4**

9. Intangible fixed assets

	Total (£ million)
Gross cost at 1 April 2006	22.3
At start of period for new NHS foundation trusts	14.4
Reclassifications	0.7
Additions – purchased	11.8
Additions – donated	0.1
Disposals	(0.2)
Gross cost at 31 March 2007	**49.1**
Amortisation at 1 April 2006	9.6
At start of period for new NHS foundation trusts	6.4
Provided during the year	3.6
Reclassifications	0.1
Disposals	(0.1)
Amortisation at 31 March 2007	**19.6**
Net book value (NBV) – purchased at start of period	12.3
NBV – donated at start of period	0.4
Total NBV at start of period	**12.7**
NBV – purchased at 31 March 2007	29.1
NBV – donated at 31 March 2007	0.4
Total NBV at 31 March 2007	**29.5**

All material intangible fixed assets consist of software licences.

10.1 Tangible fixed assets

	TOTAL (£ million)	Land (£ million)	Buildings excl. dwellings (£ million)	Dwellings (£ million)	Assets under construction & payments on account (£ million)	Plant and machinery (£ million)	Transport equipment (£ million)	Information technology (£ million)	Furniture and fittings (£ million)
Gross cost or valuation at 1 April 2006	**6,404.6**	1,027.9	3,733.7	72.4	226.7	1,060.9	8.9	208.5	65.6
Prior period adjustment*	**(73.9)**	0.0	(73.9)	0.0	0.0	0.0	0.0	0.0	0.0
Restated gross cost or valuation at the start of the period	**6,330.7**	1,027.9	3,659.8	72.4	226.7	1,060.9	8.9	208.5	65.6
At start of period for new NHS foundation trusts	**4,276.0**	869.5	2,386.3	47.5	155.5	636.8	7.5	139.0	33.9
Additions – purchased	**491.4**	7.6	104.3	0.9	248.2	87.8	0.2	39.1	3.3
Additions – donated	**41.3**	0.0	5.9	0.0	27.3	7.0	0.0	0.6	0.5
Impairments	**(168.8)**	(1.4)	(157.5)	(5.0)	(4.2)	(0.7)	0.0	0.0	0.0
Reclassifications	**0.0**	4.3	193.4	0.2	(265.5)	38.3	(0.2)	24.1	5.4
Other revaluations	**82.6**	68.0	(13.5)	(0.1)	1.2	25.5	0.3	0.0	1.2
Disposals	**(232.5)**	(85.2)	(52.3)	(2.5)	(1.3)	(79.9)	(2.0)	(5.5)	(3.8)
Gross cost or valuation at 31 March 2007	**10,820.7**	1,890.7	6,126.4	113.4	387.9	1,775.7	14.7	405.8	106.1
Depreciation at 1 April 2006	**1,082.5**	0.0	221.0	4.1	0.0	682.6	6.5	131.5	36.8
Prior period adjustment*	**(70.0)**	0.0	(70.0)	0.0	0.0	0.0	0.0	0.0	0.0
Restated depreciation at the start of the period	**1,012.5**	0.0	151.0	4.1	0.0	682.6	6.5	131.5	36.8
At start of period for new NHS foundation trusts	**689.7**	0.0	186.7	3.5	0.0	385.0	6.0	88.3	20.2
Provided during the year	**344.0**	0.0	187.2	3.0	0.0	115.0	1.0	31.6	6.2
Impairments	**(4.6)**	0.0	(4.6)	(0.3)	0.0	0.3	0.0	0.0	0.0
Reversal of impairments	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications	**0.6**	0.0	(0.2)	0.0	0.0	0.9	(0.3)	0.1	0.1
Other revaluation	**6.8**	0.0	(10.1)	(0.2)	0.0	16.2	0.2	0.0	0.7
Disposals	**(84.5)**	0.0	(3.2)	(0.1)	0.0	(70.5)	(1.9)	(5.2)	(3.6)
Depreciation at 31 March 2007	**1,964.5**	0.0	506.8	10.0	0.0	1,129.5	11.5	246.3	60.4
NBV – purchased at 1 April 2006	**4,881.9**	985.6	3,218.2	67.9	200.5	306.1	2.2	74.6	26.8
NBV – donated at 1 April 2006	**440.2**	42.3	294.5	0.4	26.2	72.2	0.2	2.4	2.0
Total NBV at 1 April 2006 as originally stated	**5,322.1**	1,027.9	3,512.7	68.3	226.7	378.3	2.4	77.0	28.8
Prior period adjustment*	**(3.9)**	0.0	(3.9)	0.0	0.0	0.0	0.0	0.0	0.0
Total NBV at 1 April 2006 as restated	**5,318.2**	**1,027.9**	**3,508.8**	**68.3**	**226.7**	**378.3**	**2.4**	**77.0**	**28.8**
NBV – purchased at 31 March 2007	**8,294.5**	1,845.8	5,218.0	102.5	369.6	557.0	3.0	156.3	42.3
NBV – donated at 31 March 2007	**561.7**	44.9	401.6	0.9	18.3	89.2	0.2	3.2	3.4
Total NBV at 31 March 2007	**8,856.2**	**1,890.7**	**5,619.6**	**103.4**	**387.9**	**646.2**	**3.2**	**159.5**	**45.7**

*The prior period adjustment is the reclassification of a donated tangible fixed asset as an operating lease, as set out in Note 22.

Notes to the accounts

10.2 Analysis of tangible fixed assets

	2006-07 (£ million)	Restated 2005-06 (£ million)
Net book value (NBV)		
– protected assets at 31 March	6,456.1	3,863.8
– unprotected assets at 31 March	2,400.1	1,454.4
Total at 31 March	**8,856.2**	**5,318.2**

Net book value of assets held under finance leases and hire purchase contracts comprises £6,977,000 of land (2005-06: £1,550,000), £27,169,000 of buildings excluding dwellings (2005-06: £304,000), £4,688,000 of dwellings (2005-06: £nil), £75,000 of plant and machinery (2005-06: nil) and £399,000 of furniture and fittings (2005-06: £nil).

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £1,167,000 (2005-06: £25,000).

10.3 Net book value of land, buildings and dwellings

	2006-07 (£ million)	Restated 2005-06 (£ million)
Freehold	7,400.2	4,548.3
Long leasehold	211.5	53.9
Short leasehold	2.0	2.8
Total at 31 March	**7,613.7**	**4,605.0**

11. Stock and work-in-progress

	2006-07 (£ million)	Restated 2005-06 (£ million)
Raw materials and consumables	166.4	91.2
Work in progress	0.4	0.0
Finished goods	6.2	6.0
Total	**173.0**	**97.2**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

12. Debtors

Debtors – amounts falling due within one year

	2006-07 (£ million)	Restated 2005-06 (£ million)
NHS debtors	409.2	291.7
Provision for irrecoverable debts	(73.1)	(52.4)
Prepayments and accrued income	117.9	61.2
Other debtors	225.0	113.6
Total	**679.0**	**414.1**

Debtors – amounts falling due after more than one year

NHS debtors	13.8	8.4
Provision for irrecoverable debts	(1.5)	(0.8)
Prepayments and accrued income	87.7	2.3
Other debtors	95.2	60.7
Total	**195.2**	**70.6**
Total debtors	**874.2**	**484.7**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

13. Current asset investments

	2006-07 (£ million)	2005-06 (£ million)
Cost or valuation at 1 April	52.4	36.4
Cost or valuation at start of period for new NHS foundation trusts	20.1	0
Additions	1,576.6	491.2
Disposals	(1,441.0)	(475.2)
Revaluations	12.9	0
Cost or valuation at 31 March	**221.0**	**52.4**

Notes to the accounts

14.a Creditors – amounts falling due within one year

	2006-07 (£ million)	Restated 2005-06 (£ million)
Bank overdrafts	0.4	1.6
Loans	16.2	3.4
Interest payable	0.4	0.1
Payments received on account	38.1	6.0
NHS creditors	306.9	158.3
Corporation tax payable	2.1	0.0
Tax and social security costs*	161.4	107.5
Obligations under finance lease and hire purchase contracts	1.6	0.0
Other creditors	398.8	264.3
Accruals and deferred income	426.7	218.0
Total	**1,352.6**	**759.2**

* In the prior year, tax and social security costs were included in NHS creditors.

14.b Creditors – amounts falling due after one year

	2006-07 (£ million)	Restated 2005-06 (£ million)
Loans	104.1	57.7
Obligations under finance lease and hire purchase contracts	26.9	0.7
NHS creditors	0.1	1.7
Other	27.8	19.0
Total	**158.9**	**79.1**
Total creditors	**1,511.5**	**838.3**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

15. Prudential borrowing limit

	2006-07 (£ million)	2005-06 (£ million)
Total long term borrowing limit set by Monitor	2,182.8	1,075.9
Working capital facility	884.4	447.2
Total prudential borrowing limit	3,067.2	1,523.1
Actual net increase/(decrease) in borrowing in the year – long term	69.9	52.1
Actual net increase/(decrease) in borrowing in the year – working capital	(3.9)	3.9

16. Finance lease obligations

	2006-07 (£ million)	2005-06 (£ million)
Leases payable		
Within one year	2.9	0.0
Between one and five years	12.1	0.1
After five years	73.4	0.7
Finance charges allocated to future periods	(59.9)	(0.1)
Net obligations	**28.5**	**0.7**

Notes to the accounts

17. Provisions for liabilities and charges

	Total (£ million)	Pensions relating to former directors (£ million)	Pensions relating to other staff (£ million)	Other legal claims (£ million)	Other** (£ million)
At 1 April 2006	103.8	0.7	31.1	9.7	62.3
Reanalysis of opening balances*	0.0	8.4	(8.3)	0.5	(0.6)
At 1 April 2006 as restated	103.8	9.1	22.8	10.2	61.7
At start of period for new NHS foundation trusts	86.3	0.3	44.4	9.0	32.6
Change in the discount rate	0.0	0.0	0.0	0.0	0.0
Arising during the year	78.7	0.5	3.7	10.2	64.3
Utilised during the year	(49.6)	(0.8)	(3.4)	(3.5)	(41.9)
Reversed unused	(8.4)	(0.1)	(1.0)	(2.4)	(4.9)
Unwinding of discount	1.8	0.2	1.3	0.1	0.2
At 31 March 2007	**212.6**	**9.2**	**67.8**	**23.6**	**112.0**
Expected timing of cash flows					
Within one year	109.5	0.8	5.7	17.9	85.1
One to five years	40.8	2.9	19.7	1.8	16.4
Over five years	62.3	5.5	42.4	3.9	10.5
Total	**212.6**	**9.2**	**67.8**	**23.6**	**112.0**

* The opening balances have been reanalysed between categories in the underlying accounts of some of the NHS foundation trusts; there is no effect on the total consolidated opening value.

** Other provisions include amounts in relation to a number of potential liabilities included in the underlying accounts of the individual NHS foundation trusts. Of these, the largest relate to Agenda for Change pay awards and injury benefit payments to former staff.

£714.9 million is included in the accounts of the NHS Litigation Authority for clinical negligence liabilities in NHS foundation trusts (2005-06: £292 million).

18. Movement in taxpayers' equity

	2006-07 (£ million)	Restated 2005-06 (£ million)
Taxpayers' equity at 1 April	5,295.5	4,309.3
Prior period adjustments	(13.3)	(14.4)
Taxpayers' equity at 1 April as restated	5,282.2	4,294.9
Taxpayers' equity at the start of period for new NHS foundation trusts	3,587.8	846.7
Surplus/ (deficit) for the financial year	230.0	145.5
Public dividend capital dividends	(232.3)	(167.6)
Fixed asset impairments	(8.3)	(11.3)
Surplus/ (deficit) from revaluations of fixed and current asset investments	88.7	15.5
New public dividend capital received	270.9	154.0
Public dividend capital repaid in year	(9.9)	(19.2)
Public dividend capital repayable	(13.2)	0.1
Other movements in public dividend capital in year	0.0	2.1
Additions/ (reductions) in donated asset reserve	10.9	26.5
Other additions/ (reductions) in reserves	(3.3)	(5.0)
Taxpayer's equity at 31 March	**9,203.5**	**5,282.2**

The opening taxpayers' equity balance has been restated to take account of the prior period adjustments set out in Note 22.

19. Movement in public dividend capital

	2006-07 (£ million)	2005-06 (£ million)
Public dividend capital at 1 April	3,204.5	2,485.3
Public dividend capital at start of period for new NHS foundation trusts	2,163.9	582.4
New public dividend capital received	270.9	154.0
Public dividend capital repaid in year	(9.9)	(19.2)
Public dividend capital repayable	(13.2)	(0.1)
Other movements in public dividend capital in year	0.0	2.1
Public dividend capital at 31 March	**5,616.2**	**3,204.5**

Notes to the accounts

20. Movement in reserves

	Total (£ million)	Revaluation reserve (£ million)	Donated asset reserve (£ million)	Other reserves (£ million)	Income and expenditure reserve (£ million)
At 1 April 2006	2,091.0	1,599.2	438.3	7.8	45.7
Prior period adjustments	(13.3)	0.5	(14.9)	0.0	1.1
At 1 April 2006 restated	2,077.7	1,599.7	423.4	7.8	46.8
At start of period for new NHS foundation trusts	1,423.9	1,191.3	119.4	1.1	112.1
Transfer from income and expenditure account	(2.3)	0.0	0.0	0.0	(2.3)
Fixed asset impairments	(8.3)	(7.6)	(0.7)	0.0	0.0
Surplus on revaluations of fixed asset and current asset investments	88.7	86.7	2.0	0.0	0.0
Transfer of realised profit / (loss) to the income and expenditure reserve	(3.3)	(24.1)	(2.2)	0.0	23.0
Receipt of donated assets	41.3	0.0	41.3	0.0	0.0
Transfer to the income and expenditure account for depreciation, impairment and disposal of donated assets	(30.4)	0.0	(30.4)	0.0	0.0
Other transfers between reserves	0.0	(139.8)	0.2	(0.2)	139.8
Movements on other reserves	0.0	0.0	0.0	0.0	0.0
At 31 March 2007	**3,587.3**	**2,706.2**	**553.0**	**8.7**	**319.4**

The opening reserves balance has been restated to take account of the prior period adjustments set out in Note 22.

21.1 Reconciliation of operating surplus to net cash inflow from operating activities

	2006-07 (£ million)	Restated 2005-06 (£ million)
Total operating surplus / (deficit)	**178.6**	**130.0**
Depreciation and amortisation	347.6	240.9
Fixed asset impairments and reversals	155.9	6.5
Transfer from donated asset reserve	(30.4)	(24.1)
Other movements	(5.7)	0.0
Increase / (decrease) in stocks	(2.5)	(0.7)
(Increase) / decrease in debtors	85.2	(66.6)
Increase / (decrease) in creditors	(5.0)	100.4
Increase / (decrease) in provisions	23.7	9.3
Net cash inflow from operating activities before exceptional costs	**747.4**	**395.7**
Exceptional items	(2.1)	(2.9)
Net cash inflow from operating activities	**745.3**	**392.8**

Prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22.

21.2 Reconciliation of net cash flows to movement in net debt

	2006-07		2005-06	
	(£ million)	(£ million)	(£ million)	(£ million)
Net funds/(debt) at 1 April		**249.0**		**134.9**
Increase / (decrease) in cash in the year	379.9		144.3	
Cash (inflow) from new debt	(91.3)		(57.1)	
Cash outflow from debt repaid and finance lease capital payments	31.5		2.9	
Cash inflow / (outflow) from (decrease) / increase in liquid resources	171.6		15.0	
Change in net funds / (debt) resulting from cash flows		**491.7**		**105.1**
Non cash changes		(23.0)		7.9
Net funds / (debt) at start of period: new NHS foundation trusts		127.9		1.1
Net funds / (debt) at 31 March		**845.6**		**249.0**

Notes to the accounts

21.3 Analysis of changes in net debt

	At 1 April 2006 (£ million)	At start of period – new NHS foundation trusts (£ million)	Cash changes in year (£ million)	Non-cash changes in year (£ million)	At 31 March 2007 (£ million)
Commercial cash at bank and in hand	100.8	2.4	61.3	0.0	164.5
Office of the Paymaster General (OPG) cash at bank	158.3	135.5	315.4	0.0	609.2
Bank overdrafts	(1.6)	(2.0)	3.2	0.0	(0.4)
Debt due within one year	(3.4)	0.0	(12.8)	0.0	(16.2)
Debt due after one year	(56.8)	0.0	(47.3)	0.0	(104.1)
Finance leases	(0.7)	(28.0)	0.3	0.0	(28.4)
Current asset investments	52.4	20.0	171.6	(23.0)	221.0
Total	**249.0**	**127.9**	**491.7**	**(23.0)**	**845.6**

22.1 Prior period adjustment

The total prior period adjustment of £13.3 million is comprised of the following:

	£ million
Big Lottery grants: adjustments to creditors and net adjustment to reserves	(10.5)
Partially completed spells: adjustment to income and to debtors	1.1
Reclassification of tangible fixed assets: adjustment to donated assets and to the donated asset reserve	(3.9)
Total	**(13.3)**

22.2 Accounting for Big Lottery grants

From 2006-07 NHS foundation trusts are required to account for Big Lottery grants (and grants from its predecessor body, the New Opportunities Fund) as government grants rather than as part of the donated asset reserve where the grant has been received by the NHS foundation trust itself. Ten NHS foundation trusts have made a prior period adjustment in respect of Big Lottery grants. The impact of this has been to increase creditors by £10.5 million, to increase the revaluation reserve by £0.5 million and to reduce the donated asset reserve by £11.0 million in the 2005-06 opening balances.

22.3 Partially completed spells

City Hospitals Sunderland NHS Foundation Trust has recognised accrued income in relation to partially completed patient spells for the first time this year. This represents a change in its accounting policy. The impact of this has been to increase activity income and debtors in 2005-06 by £1.1m.

22.4 Reclassification of tangible fixed assets

Heart of England NHS Foundation Trust has reclassified a donated tangible fixed asset as an operating lease; the effect of this has been to reduce donated tangible fixed assets by £3.9 million in the 2005-06 opening balances.

22.5 Other re-analysis

There have been a number of reanalyses of prior year comparatives which have been reported in the statements of individual NHS foundation trusts. These have not had an impact on the income and expenditure account totals or on the balance sheet totals as previously stated.

The total impact of the prior period adjustments and reanalyses of prior year comparatives is as follows:

		Year ended 31 March 2006	
	Notes	As stated (£ million)	As restated (£ million)
Income and expenditure account: retained deficit for the year		**23.2**	**22.1**
Income from activities	2	5,688.6	5,689.7
Elective income	3.1	1,367.7	1,324.3
Non-elective income	3.1	1,876.2	1,858.3
Outpatient income	3.1	1,009.7	1,015.6
Other type of activity income	3.1	1,238.5	1,304.0
A&E income	3.1	204.2	204.4
Payment by Results PbR clawback	3.1	(106.1)	(115.3)
Supplies and clinical services	4.1	610.6	624.3
Drugs costs	4.1	518.9	505.2
Hire of plant and machinery	4.2	9.5	11.2
Other operating lease rentals	4.2	41.5	39.8
Balance sheet: total assets employed		**5,295.5**	**5,282.2**
Tangible fixed assets at start of period	10.1	5,322.1	5,318.2
Stock	11	92.7	91.2
Other debtors	12	111.5	113.6
NHS debtors	12	292.3	291.7
Accrued income	12	60.1	61.2
Accruals and deferred income	14a	213.3	218.0
NHS creditors (including tax and social security costs)	14a	273.7	265.8
Other creditors (due in less than 1 year)	14a	256.4	264.3
Other creditors (due in more than 1 year)	14b	13.2	19.0
Revaluation reserve	20	1,599.2	1,599.7
Donated asset reserve	20	438.3	423.4
Income and expenditure reserves	20	45.7	46.8

Notes to the accounts

23. Capital commitments

NHS foundation trusts have entered into £167.8 million of capital commitments at 31 March 2007 (2005-06: £117.9 million).

24. Contingent liabilities

Potential net contingent liabilities totalling £10.4 million have not been accrued as the outcome of the associated legal cases is uncertain (2005-06: £45.9 million). These do not include cases of clinical litigation which are accounted for by the NHS Litigation Authority.

25. Losses and special payments

In the year there were 17,640 cases of loss (2005-06: 11,729) with a total value of £13.5 million (2005-06: £4.3 million) and 1,693 cases (2005-06: 1,090) of special payments with a total value of £3.7 million (2005-06: £3.7 million). There was one individual loss or special payment in excess of £100,000 (2005-06: three) in the accounts of South London and Maudsley NHS Foundation Trust. Note: the total costs are included in the notes to the accounts, which are prepared on an accruals basis.

26. Related party transactions

NHS foundation trusts are public benefit corporations established under the Health and Social Care (Community Health and Standards) Act 2003. From 1 March 2007, the provisions of the 2003 Act relating to NHS foundation trusts were consolidated in the National Health Service Act 2006. The Department of Health is regarded as a related party. During the period, NHS foundation trusts had a significant number of material transactions with the Department and with other entities for which the Department is regarded as the parent department, i.e. all strategic health authorities, NHS trusts, primary care trusts, NHS agencies and all special health authorities. In addition the NHS foundation trusts had a significant number of material transactions with other government bodies including central and local government bodies. NHS foundation trusts had some transactions with a number of charitable funds and certain of the trustees are also members of the NHS foundation trust boards. Details of all the NHS foundation trust-related party transactions are shown in the accounts of the individual NHS foundation trust.

27.1 Private finance initiative (PFI) schemes deemed to be off balance sheet

For PFI schemes, deemed by individual NHS foundation trusts to be off balance sheet, the revenue charges incurred in 2006-07, the future annual revenue charges anticipated and the estimated capital value excluded from the individual NHS foundation trusts' balance sheet are:

	2006-07 (£ million)	2005-06 (£ million)
Amounts included within operating expenses in respect of PFI transactions deemed to be off balance sheet	109.7	45.4
NHS foundation trusts are committed to make the following payments during the next year:		
PFI scheme which expires:		
2nd – 5th years (inclusive)	2.6	1.3
6th – 10th years (inclusive)	10.1	9.5
11 years and beyond	207.1	63.8
Estimated capital value of PFI schemes	2,469.1	844.4

27.2 Private finance initiative (PFI) schemes deemed to be on balance sheet

	2006-07 (£ million)	2005-06 (£ million)
Amounts included within operating expenses in respect of the "services" element of PFI schemes deemed to be on balance sheet	7.5	0
NHS foundation trusts are committed to make the following payments during the next year:		
PFI scheme which expires:		
6th – 10th years (inclusive)	2.1	0
26th – 30th years (inclusive)	10.6	0
36th year and beyond	0.5	0

Notes to the accounts

28. Post balance sheet events

As at 31 March 2007 there were 59 NHS foundation trusts. A further 20 NHS trusts or NHS mental health trusts have become NHS foundation trusts since the year end.

Date	Trusts authorised as NHS foundation trusts	Total number of NHS foundation trusts
1 April 2007	3	62
1 May 2007	3	65
1 June 2007	2	67
1 July 2007	2	69
1 August 2007	4	73
1 October 2007	4	77
1 November 2007	2	79

The following NHS foundation trusts have reported post balance sheet events:

Heart of England NHS Foundation Trust (HEFT)

Following a public consultation and approval by the Secretary of State for Health, Good Hope Hospital NHS Trust (GHH) was dissolved on 8 April 2007 and merged with Heart of England NHS Foundation Trust. HEFT took over all the assets and liabilities of GHH, including liability to HM Treasury for the public dividend capital of GHH, which at 8 April 2007 stood at £84.5 million. This will have a significant impact on the results and financial position of HEFT in 2007-08. GHH's total assets employed at 31 March 2007 were £102.8 million, its operating income was £133.8 million and it delivered a surplus of £1.7 million in 2006-07.

South Staffordshire Healthcare NHS Foundation Trust (SSHFT)

In June 2007 the mental health and learning disability services and a proportion of the estates and facilities services of Shropshire Primary Care Trust were transferred to SSHFT. SSHFT was then renamed South Staffordshire and Shropshire Healthcare NHS Foundation Trust. The transaction involved the transfer of £43.7 million of assets, £42 million of income (and expenditure) and almost 1,000 whole time equivalent staff.

Peterborough and Stamford Hospitals NHS Foundation Trust

Peterborough and Stamford Hospitals NHS Foundation Trust reached financial close on a Private Finance Initiative (PFI) deal with Progress Health Ltd in July 2007 to re-provide hospital facilities and services on the current Edith Cavell Hospital site. The total value of the trust's PFI capital expenditure is c.£338 million, of which £290 million relates to the trust with the balance relating to the local PCT and mental health trust. A loss in the value of fixed assets, estimated at £40 million, is forecast in 2009-10 on the demolition of existing buildings.

Salford Royal NHS Foundation Trust

Salford Royal NHS Foundation Trust reached financial close on a PFI deal with Consort Healthcare Ltd in September 2007 to re-provide hospital facilities and services. The total value of the capital is £137 million, which will attract a unitary charge of £12 million in 2013-14, the first full year of operation.

A consultation on the future of medically led maternity and neonatal services in Greater Manchester has concluded that these services should no longer be provided by the trust with effect from 2012. Whilst these service changes have no impact on the 2006-07 annual accounts, c.£17 million of income related to these services were included in the 2006-07 accounts.

Gloucestershire Hospitals NHS Foundation Trust

Following a loss of water supply due to excessive rainfall in July 2007, Gloucestershire Hospitals NHS Foundation Trust provided only emergency and urgent treatment for an 11-day period, resulting in the cancellation of 1,246 planned operations and over 8,000 outpatient appointments. This is equivalent to a loss of £2.9 million income, as well as extra costs of £0.9 million. The trust believes that its financial loss will be reimbursed by payments from its local primary care trust and strategic health authority.

Guy's and St.Thomas' NHS Foundation Trust

Since the year end the trust has disposed of two properties, the Lambeth Hospital site and the General Lying-In Hospital site, generating cash receipts of £20.38 million. Neither site was a protected asset under the trust's Terms of Authorisation. It has also recovered £3.3 million of debtors previously provided for as irrecoverable in its 2006-07 accounts.

Notes to the accounts

Lancashire Teaching Hospitals NHS Foundation Trust

At year end the trust was in the process of selling the remainder of the of the Sharoe Green Hospital site to the Lancashire Care Trust. Sale proceeds of £3.1 million were received in 2006-07 and included in the balance sheet as a payment received on account. The site deeds will be transferred on completion of the sale in 2007-08.

South Tyneside NHS Foundation Trust

Responsibility for accounting for the local Postgraduate Institute for Medicine and Dentistry (PIMD) was transferred to County Durham and Darlington NHS Foundation Trust on 1 April 2007. The transfer included assets and corresponding liabilities of c. £3 million, and annual income and offsetting expenditure of c. £1 million.

Authorised date for issue

FRS21 requires Monitor to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by Monitor for laying before Parliament. The authorised date for issue is 27 November 2007.

29. Financial instruments

The NHS foundation trust summarised account includes the accounts of 59 underlying NHS foundation trusts. It is within the underlying accounts of these 59 bodies that detailed FRS13 disclosures have been made. The following paragraphs provide an overview of the major financial risks for NHS foundation trusts and how they are managed at the individual level.

Financial instruments

FRS 13, derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risk an entity faces in its underlying activities. Because of the largely non-trading nature of NHS foundation trusts' activities and the way in which they are financed, NHS foundation trusts are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Financial assets and liabilities are primarily generated by day-to-day operational activities and are not held to change the risks facing NHS foundation trusts in undertaking their activities.

Liquidity risk

NHS foundation trusts' net operating expenses are primarily met by income generated under annual service agreements with primary care trusts, which are financed from sources voted annually by Parliament. NHS foundation trusts also largely finance their capital expenditure from the funds made available from Government under agreed borrowing limits. NHS foundation trusts are not therefore exposed to significant liquidity risks.

Interest rate risk

The majority of NHS foundation trusts' financial assets and financial liabilities carry nil or fixed rates of interest. NHS foundation trusts are not, therefore, exposed to any significant interest rate risk.

Foreign currency risk

NHS foundation trusts have no or negligible foreign currency income or expenditure and therefore are not exposed to significant foreign currency risk.

Fair values

The fair values of financial assets and financial liabilities for NHS foundation trusts approximates to their book values.

30. Third party assets

The balance of patients' money held within the NHS foundation trusts' bank accounts at 31 March 2007 was £1.4 million (2005-06: £0.7 million). This has been excluded from the balance sheet as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

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