Monitor
Independent Regulator
of NHS Foundation Trusts

Review and consolidated accounts of NHS foundation trusts 2005-06

Note

The financial information in this report covers the financial year 2005-06. During this period, 31 NHS foundation trusts operated for the whole of the year with one NHS foundation trust (The Rotherham NHS Foundation Trust) authorised from 1 June 2005; its results are included for the ten months for which it was an NHS foundation trust.

The comparative data for 2004-05 covers 25 NHS foundation trusts, ten of which were authorised as NHS foundation trusts for the whole of the financial year, and 15 for part of the year.

Figures for 2004-05 have been re-stated from those published in the consolidated accounts last year. In the 2004-05 accounts patient income was recognised in the period in which the patient spell or treatment ended. The *NHS Foundation Trust Financial Reporting Manual 2005-06* revised this approach so that income from partially completed spells was recognised in-year. The reduction of the retained deficit for 2004-05 by £4.4m is principally due to this change in accounting treatment.

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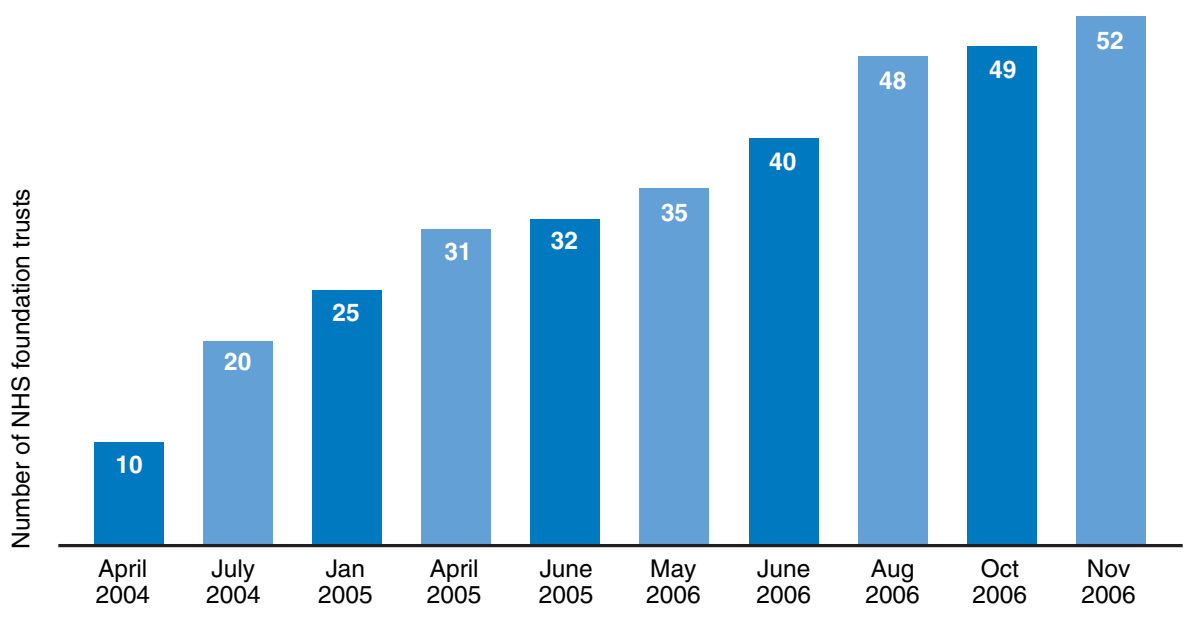
Contents

There are now over 50 NHS foundation trusts, which form a substantial part of healthcare delivery in England



NHS foundation trusts

The figures in this report refer to the 32 NHS foundation trusts authorised as at 31 March 2006, unless otherwise stated. The map shows all NHS foundation trusts authorised as at November 2006.

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'
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 Gateshead Health (authorised 5 January 2005)
24 Harrogate and District
25 South Tyneside

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 & Christchurch Hospitals

Authorised on 1 June 2005

32 Rotherham

Authorised 1 May 2006

33 Oxleas
34 South Essex Partnership
35 South Staffordshire Healthcare

Authorised 1 June 2006

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

Authorised 1 August 2006

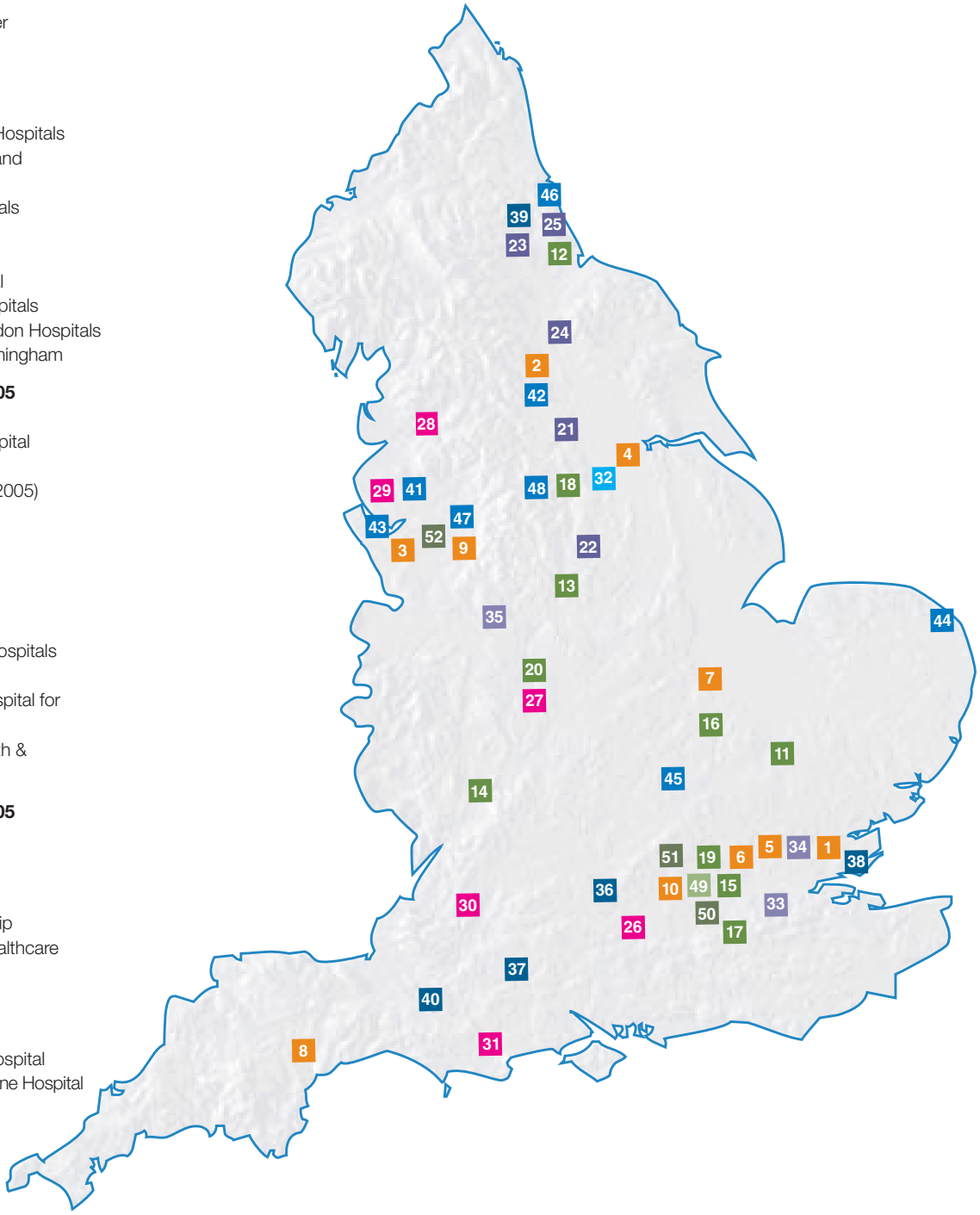
41 Aintree University Hospitals
42 Calderdale and Huddersfield
43 Clatterbridge Centre for Oncology
44 James Paget University Hospitals
45 Luton and Dunstable Hospital
46 Northumbria Healthcare
47 Salford Royal
48 Sheffield Children's

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



Introduction by William Moyes, Executive Chairman

With the first NHS foundation trusts now operational for over two years, it is possible to identify trends in performance and begin to paint a more rounded picture of what NHS foundation trusts are contributing to the overall performance of the NHS. Our assessment is that it is a positive picture.

NHS foundation trusts are delivering a good financial performance, particularly taking into account the financial pressures which the wider NHS is facing at present. Where they have faced problems they are tackling them promptly and effectively. Monitor has not had to use its statutory powers of intervention during 2005-06.

This effective financial management is enabling the NHS foundation trusts to focus on their key aim: delivering good quality patient care. Furthermore, NHS foundation trusts are going beyond this and are improving and developing the services they offer to patients. They are using their surpluses and borrowing powers to invest in new projects.

These projects include a £10 million investment at Cambridge University Hospitals NHS Foundation Trust in a new combined accident and emergency and medical admissions unit; and a £8.7 million investment at Homerton in a perinatal centre. These investments will improve the quality of care and service that patients enjoy, and the NHS foundation trust regime enables projects such as these to be developed and implemented more rapidly and with greater local control than in the past.

A key part of being an NHS foundation trust is a new governance structure which aims to deliver local accountability, through members and governors. Here too there is evidence of NHS foundation trusts taking these obligations seriously and engaging effectively with their members and governors.

The number of NHS foundation trusts is building up steadily. This report covers the 32 NHS foundation trusts that were in existence in 2005-06, but their number has already passed 50. NHS foundation trusts are now responsible for over a quarter of acute and specialist trust provision in England, and we also have the first mental health trusts in the NHS foundation trust system.

At the same time the wider system reform agenda continues to be implemented. Payment by results is bringing a more commercial environment to hospital management, primary care trusts are developing their capacity to commission effectively and patients are beginning to exercise choice. These reforms are bringing many pressures on the NHS, which continues to operate in an environment of high public and political expectation.

There is a growing body of evidence that NHS foundation trusts are generally thriving in this environment. Monitor's assessment and authorisation process has proved successful in ensuring that NHS foundation trusts start with strong finances and good governance. Where financial or clinical problems arise, as they inevitably will, Monitor's compliance

regime has proved highly effective in identifying issues quickly and in focusing the boards of NHS foundation trusts on devising effective solutions. Underpinning this is Monitor's financial reporting regime for NHS foundation trusts, which ensures transparency and assists understanding by boards and managers. And, as the Healthcare Commission's annual health check has shown, NHS foundation trusts are using their resources effectively whilst delivering the services required by their commissioners to the standards prescribed nationally.

We believe that the evidence increasingly points away from tight performance management as the means to improve services and performance. The autonomy enjoyed by NHS foundation trusts, Monitor's clear and rigorous regulatory regime and increasingly effective commissioning have created the right conditions for constantly improving performance to the benefit of patients.

Dr William Moyes
Executive Chairman

Financial performance – overview

- After exceptional items and PDC (public dividend capital) dividend payments, the retained deficit was £23.2 million, reduced from £32.5 million in 2004-05
- The 10 NHS foundation trusts authorised on 1 April 2004 have improved performance from a £15 million deficit to a £6 million surplus
- Operating surplus of £128.9 million, increased from £58 million in 2004-05.

Consolidated income and expenditure account – year ended 31 March

	2006 £ million	2005 (restated) £ million
Income from activities	5,688.6	3,391.6
Other operating income	1,073.8	715.1
Impairments	(6.5)	(7.9)
Other operating expenses	(6,627.0)	(4,040.8)
Operating surplus/(deficit)	**128.9**	**58.0**
Exceptional items	(6.5)	0.0
Profit/(loss) on disposal of fixed assets	8.9	(1.3)
Surplus/(deficit) before interest	**131.3**	**56.7**
Interest receivable	18.8	9.4
Interest payable	(1.4)	(0.6)
Other finance costs – unwinding of discount	(0.9)	(0.8)
Other finance costs – change in discount rate on provisions	(3.3)	0.0
Surplus/(deficit) before taxation	**144.5**	**64.7**
Taxation	(0.1)	0.0
Surplus/(deficit) after taxation	**144.4**	**64.7**
PDC dividends payable	(167.6)	(97.2)
Retained surplus/(deficit) for the year	**(23.2)**	**(32.5)**

The NHS foundation trusts delivered an aggregate deficit for the year of £23.2 million.

While this represents a reduction in the deficit from the 2004-05 position, a direct comparison between the two years can only be made with caution due to the differing number of NHS foundation trusts in each year.

Total income increased by 64.7% to £6,762.4 million, while total operating expenses increased by 63.8% to £6,633.5 million. The operating surplus was £128.9 million, an increase of 122.2%. The retained deficit for the year, £23.2 million, was calculated following payment of £167.6 million in dividends on PDC (public dividend capital). This is an increase of 72.4% in PDC dividend payments.

NHS foundation trusts authorised on 1 April 2004 (ten trusts) Consolidated income and expenditure account – year ended 31 March

	2006 £ million	2005 (restated) £ million
Income from activities	1,451	1,339
Other operating income	238	226
Operating expenses	(1,643)	(1,543)
Operating surplus	**46**	**22**
Exceptional Items	0	(1)
Profit/(loss) on disposal of fixed assets	0	(1)
Surplus before interest	**46**	**20**
Interest receivable	3	2
Other finance costs – unwinding of discount	2	2
Other finance costs – change in discount rate on provisions	(1)	0
Surplus for the financial year	**50**	**24**
Public dividend capital dividends payable	(44)	(39)
Retained surplus/(deficit) for the year	6	(15)

Comparative performance for first ten NHS foundation trusts

The first ten NHS foundation trusts were authorised on 1 April 2004 and so their accounts as NHS foundation trusts are available for two full financial years. It is therefore possible to make a year-on-year performance comparison for this group. The table above shows that an aggregate deficit of £15 million in 2004-05 was turned into a £6 million surplus for 2005-06.

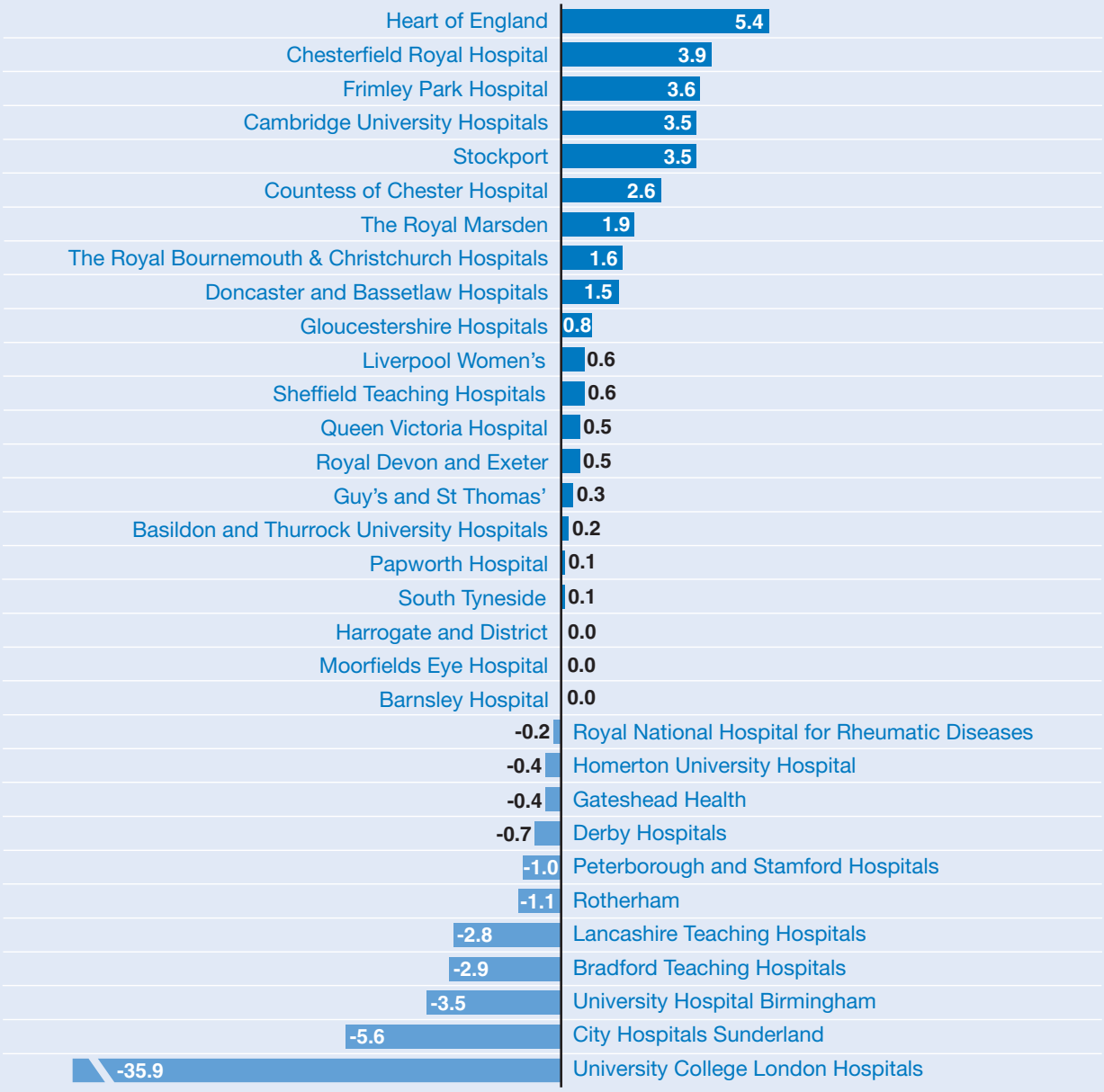
This performance was principally driven by marked improvements in the three NHS foundation trusts which incurred the largest deficits in 2004-05: Bradford Teaching Hospitals, Peterborough and Stamford, and Royal Devon and Exeter. Further information on this is given on pages 14 and 15.

Financial performance – overview continued

Performance for all NHS foundation trusts

The results by NHS foundation trusts show a wide range in performance. Heart of England NHS Foundation Trust generated a surplus of £5.4 million while University College London Hospitals (UCLH) incurred a deficit of £35.9 million. The performance of NHS foundation trusts in aggregate was significantly adversely affected by the performance of UCLH. If its deficit is removed, then the remaining NHS foundation trusts achieved a surplus of £12.7 million. More detail on UCLH is given on page 15.

Income and expenditure surplus/deficit by NHS foundation trust (£ million)



Differences between NHS foundation trusts and other NHS organisations

We have not attempted to make a comparison between the financial performance of NHS foundation trusts and non-foundation trusts. Any comparison would be difficult because NHS foundation trusts operate an accounting regime which is closer to UK GAAP (generally accepted accounting practice).

A principal difference of the NHS foundation trust accounting regime relates to the revaluation of fixed assets. For an NHS foundation trust the impairment charge is included in the income and expenditure account, while for an NHS trust the full effect is excluded. The income and expenditure account for 2005-06 shown for NHS foundation trusts includes impairments of £6.5 million (£7.9 million 2004-05). There are also exceptional items of £6.5 million, of which £2.9 million relates to a repayment of a deficit by Lancashire Teaching Hospitals NHS Foundation Trust for the period before it became an NHS foundation trust.

While these differences make it more difficult to compare outcomes with other NHS organisations, comparison can be made through the Healthcare Commission's annual health check ratings. The health check compares the performance of all NHS organisations on quality of services and use of resources. The use of resources rating is based on Monitor's financial risk ratings for NHS foundation trusts and the Audit Commission's rating for other NHS organisations. While the approaches have differences, both give a fair guide to an organisation's financial efficiency.

On this assessment 87% of NHS foundation trusts achieved an excellent or good rating for use of resources in 2005-06, compared with 10% of non-foundation acute and specialist trusts.

Healthcare Commission's annual healthcheck: performance of NHS foundation trusts on use of resources

NHS foundation trust	Use of resources	NHS foundation trust	Use of resources
Barnsley Hospital	Good	Liverpool Women's	Excellent
Basildon and Thurrock University Hospitals	Excellent	Moorfields Eye Hospital	Excellent
Bradford Teaching Hospitals	Good	Papworth Hospital	Good
Cambridge University Hospitals	Excellent	Peterborough and Stamford Hospitals	Good
Chesterfield Royal Hospital	Excellent	Queen Victoria Hospital	Excellent
City Hospitals Sunderland	Fair	Rotherham	Good
Countess of Chester Hospital	Fair	Royal Devon and Exeter	Excellent
Derby Hospitals	Excellent	Royal National Hospital for Rheumatic Diseases	Good
Doncaster and Bassetlaw Hospitals	Good	Sheffield Teaching Hospitals	Excellent
Frimley Park Hospital	Excellent	South Tyneside	Excellent
Gateshead Health	Good	Stockport	Excellent
Gloucestershire Hospitals	Good	The Royal Bournemouth & Christchurch Hospitals	Excellent
Guy's and St Thomas'	Good	The Royal Marsden	Excellent
Harrogate and District	Excellent	University College London Hospitals	Fair
Heart of England	Excellent	University Hospital Birmingham	Excellent
Homerton University Hospital	Fair		
Lancashire Teaching Hospitals	Good		

Financial performance – analysis

- **NHS foundation trusts are improving their ability to forecast performance; the year-end position was, in aggregate, broadly in line with their plans**
- **NHS foundation trusts are meeting targets for efficiency savings**
- **Levels of margin need to increase to generate sufficient surpluses to fund future investment**

NHS foundation trusts are required to submit annual plans to Monitor which include financial forecasts. The plans submitted by NHS foundation trusts for 2005-06 showed, in aggregate, only a small variation from actual performance.

Income finished ahead of plan, principally due to higher levels of critical care and non-elective activity. Expenses were also ahead of plan due to increased pay costs, reflecting the effects of agenda for change, and increases in other costs such as energy charges. Drug and clinical supplies costs were also above plan, reflecting increased activity levels.

Margin

The margin generated by each NHS foundation trust provides an indication of the underlying performance of the organisation. The margin outturn for each NHS foundation trust follows a similar pattern to that for the surplus/deficit outcome. It is Monitor's view that the levels of margin generated by all NHS foundation trusts need to increase in order to ensure that they can reinvest and develop new facilities to deliver improving healthcare. At present the average income and expenditure margin is 0.2%, excluding the figure for University College London Hospitals NHS Foundation Trust. Including this figure, the average income and expenditure margin is -0.3%.

Cost improvement plans

The tariff under payment by results (PbR) assumes a level of efficiency savings to be made in each NHS organisation. For 2005-06 the PbR efficiency assumption was 1.7% of the cost base. NHS foundation trusts delivered cost improvement programmes of 2.2%.

The efficiency assumption within the tariff is the lever by which the Department of Health seeks to ensure that the NHS continues to drive up levels of productivity. NHS foundation trusts can expect to continue to see demanding efficiency targets in coming years and will therefore need to deliver productivity improvements ahead of these targets to ensure continued surpluses for reinvestment.

Bad and doubtful debts

A further factor which significantly impacted performance was an increase in the provision for bad and doubtful debts due from primary care trusts. The bad debt charge was £28.1 million in the year.

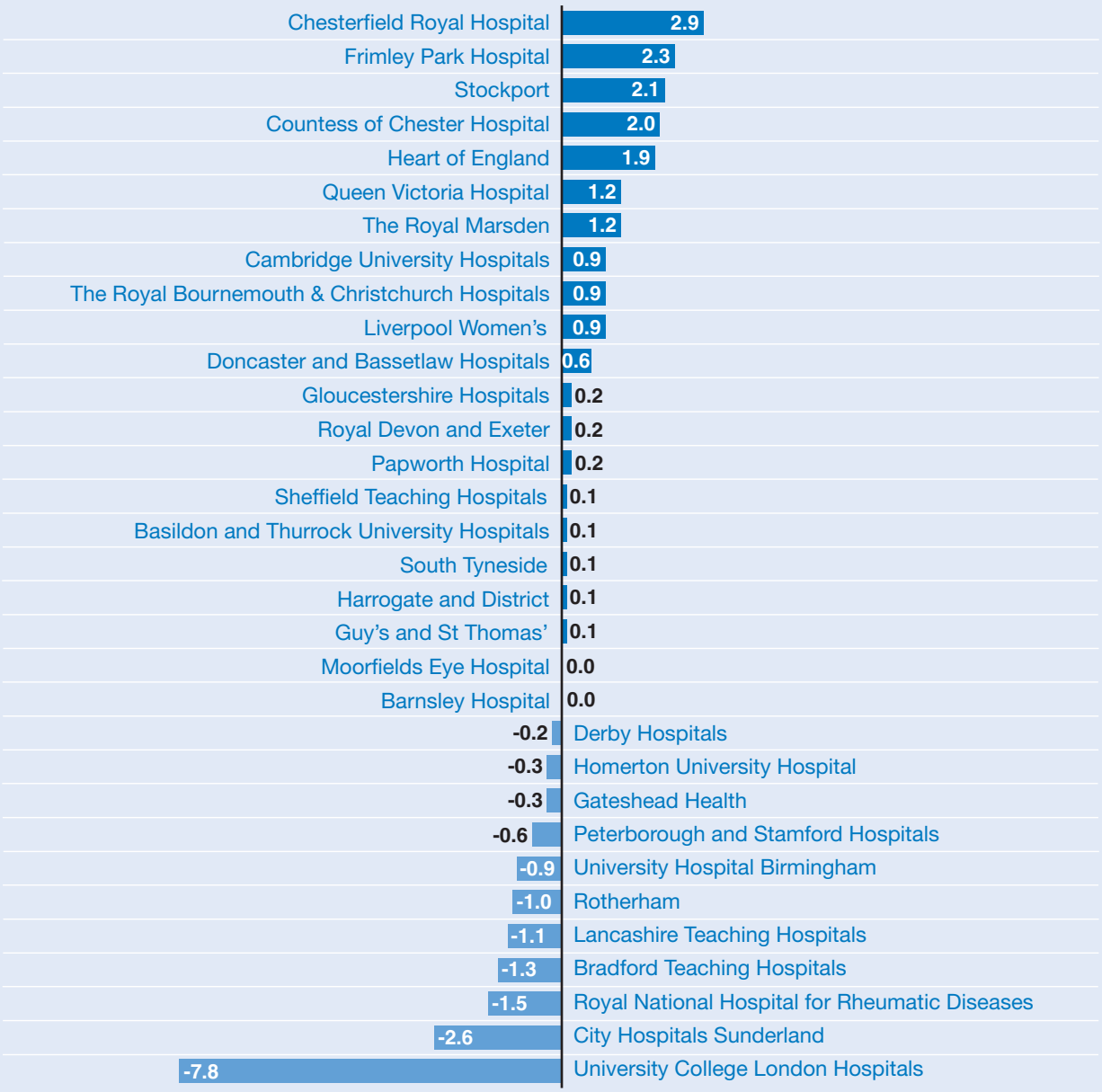
Preliminary figures for 2006-07

NHS foundation trusts have submitted their 2006-07 quarter 2 year-to-date results to Monitor. These unaudited figures show a further improved performance; an aggregate surplus of £36 million pre-exceptional items and a surplus of £20 million, post-exceptional items.

Performance against plan

Income and expenditure (£ million)	Actual 2005-06	Plan 2005-06	Variance
Total income	6,762	6,598	164
Total costs	(6,785)	(6,618)	(167)
Retained surplus/(deficit) for the year	(23)	(20)	(3)

Income and expenditure margin by NHS foundation trust 2005-06 (%)



Financial turnaround

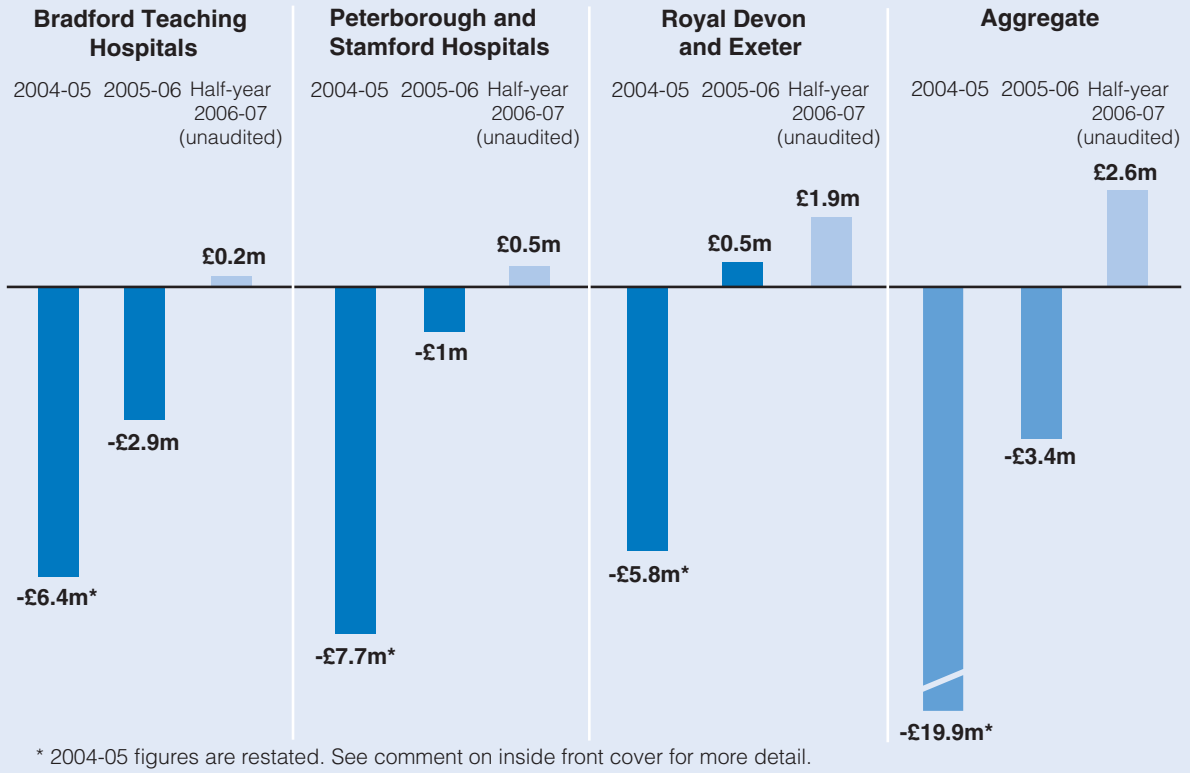
- **NHS foundation trusts respond rapidly and effectively to financial pressures**
- **Three NHS foundation trusts with the largest deficits in 2004-05 showed marked improvements in 2005-06**
- **These trusts' experience of achieving effective financial turnaround provides lessons for other NHS foundation trusts**

Three NHS foundation trusts incurred substantial deficits in their first year – Bradford Teaching Hospitals, Peterborough and Stamford Hospitals, and Royal Devon and Exeter.

Monitor worked closely with the board of directors of each NHS foundation trust in order to identify the causes of the deficits and to monitor the actions that were being taken to address the problem. In each case there was substantial improvement in financial performance during 2005-06, which has continued in 2006-07.

The main drivers of an effective turnaround are summarised below:

- **Early identification of issues** – Monitor's risk-focused *Compliance Framework* incorporates a range of early warning signals of financial underperformance. This facilitates prompt diagnosis of the size and nature of issues and promotes rapid remedial action;
- **Transparency** – the accounting regime for NHS foundation trusts gives greater transparency in financial statements which allows for improved financial planning, control and turnaround;
- **Commercial discipline** – NHS foundation trusts have greater independence. This brings greater responsibility and accountability. This accountability and associated sanctions for failure provide appropriate incentive for the development and implementation of commercial disciplines into the culture of NHS foundation trusts. This in turn helps to ensure strong financial management and successful turnaround of deficits;
- **Effective use of professional advisers** – the use of external professional advisers has been a common feature of the effective turnarounds; experts in financial turnaround are able to bring an independent view to analysing the problems and then assisting the identification and implementation of financial recovery plans;
- **Independence from political process** – the culture of NHS foundation trusts is one of non-reliance on direct subsidies and non-interference by Government bodies, which provides a clearer path to effective turnaround; and



* 2004-05 figures are restated. See comment on inside front cover for more detail.

- **Independent regulator** – Monitor's independence and powers mean that it can operate in an objective but effective manner in facilitating a trust's successful recovery.

While these conditions create an environment in which turnaround can be delivered, the major challenge is the development of a robust and effective plan for recovery.

NHS foundation trusts have three key operational levers to achieve improved performance:

- increasing revenue – for example by service developments or increasing income through training or research;
- decreasing pay costs – for example by reducing use of agency staff through better planning or reducing required staff numbers through greater efficiency (for example, reducing length of stay); and
- decreasing non-pay costs – for example by renegotiating pharmacy prices or outsourcing services (such as catering or laundry).

In the short-term the organisation is likely to focus on reducing corporate costs since this provides the quickest route to cost savings without any impact on patient care.

In the long-term however, sustained cost reductions can only be achieved through focusing on greater efficiency and productivity in the clinical directorates and clinical support. Changing clinical pathways to achieve reductions in length of stay or improved use of operating theatres will, if properly planned and effectively implemented, make a substantial difference to the economics of the trust.

University College London Hospitals

The experience gained from these turnarounds is now being applied to University College London Hospitals (UCLH). Its deficit of £35.9 million in 2005-06 is the largest deficit faced by an NHS foundation trust to date.

A proportion of the deficit can be attributed to problems arising from the move to a new hospital site but the scale of the deficit required a robust plan to achieve an effective turnaround.

That plan is now in place and is being implemented by UCLH. Current indications are that, as with the other NHS foundation trusts who have faced unanticipated financial pressures, they will be able to achieve an effective recovery and show a substantially reduced deficit in 2006-07.

Effective turnaround
Royal Devon and Exeter NHS Foundation Trust

Royal Devon and Exeter (RD&E) was one of the first NHS foundation trusts, authorised in 2004. Within months, its financial plans were in upheaval. A combination of factors, including increased staffing costs and changes in the tariff, led it to post a £5.8 million deficit in its first financial year.

One year later, however, the trust had turned the situation around completely. Angela Pedder, Chief Executive, explained how, "We could see where the problems were and as a foundation trust we couldn't ignore them, so we flagged the situation early on with Monitor. They were challenging – and rightly so – but gave us the space to work through the issues ourselves.

"It was very clear that we could only tackle this by fundamentally reviewing our entire operation. As a result, we completely remodelled our nursing workforce, cutting our agency expenditure by 90% and saving £750,000."

> "Being a foundation trust is certainly challenging, but it's also liberating."

Although this programme of change was producing fast results, the trust knew that more work was needed. "We had to move to longer-term planning because we knew we had to become more efficient every year and some of the savings programmes would take more than a year to implement. We hired external consultants to help identify £16 million in savings over three years, via reducing non-pay costs, streamlining services, cutting average length of stay and maximising our asset utilisation, like staff, beds and theatres. And we benchmarked ourselves, not just against the NHS but also against hospitals in America."

Clearly the changes caused concern among staff. "We made everyone fully aware of where the difficulties were from the start. We explained that, if we wanted the benefits and freedoms of foundation trust status, we also had to take the responsibilities; we had to own the problem. In fact, by incorporating issues that staff had raised into the review, and by examining our needs from first principles, we actually ended up increasing the number of permanent staff."

By the end of the 2005-06 financial year, the changes enabled RD&E to post a small surplus, one year ahead of target. In 2006-07 the trust is expecting a surplus of £2.4 million, rising to £6.5 million in the following year. Angela explained why this is important, "If you don't have this margin, you end up forced into short-term decisions which might damage patient services; with a contingency, you can take a more planned approach to deliver a sustainable solution.

"For example, we're currently restructuring how we deliver emergency care. We can now predict how many emergencies will come in, within 95% accuracy, a day, and we have streamed these services to involve senior staff earlier on, which helps us treat patients faster and more effectively.

"These are big steps; we're changing how the entire organisation functions, but we have to. As a foundation trust, problems have to be dealt with; nothing can sit in the 'too difficult' box. At the same time, we can make decisions for ourselves. Being a foundation trust is certainly challenging, but it's also liberating."

Royal Devon and Exeter Chief Executive, Angela Pedder

Performance against standards and targets

- **NHS foundation trusts are out-performing non-foundation trusts in their quality of services. In the Healthcare Commission's annual health check 68% of NHS foundation trusts achieved an excellent or good rating for quality of services compared with 50% of non-foundation acute and specialist trusts**
- **Harrogate and District NHS Foundation Trust and The Royal Marsden NHS Foundation Trust were the only NHS organisations to be rated as excellent for both use of resources and quality of services**
- **Monitor's regulatory framework places responsibility for performance against national core standards and targets with the board of directors**
- **The regulatory framework provides mechanisms for ensuring that significant failings are tackled**

The principal purpose of all NHS foundation trusts is to deliver high quality healthcare for the NHS. In Monitor's view, organisations need to be well-led, effectively managed and financially robust if they are to perform well – hence the emphasis given to these areas in the regulatory framework. But Monitor never loses sight of the fact that the objective is the delivery of high quality healthcare. The significant task for NHS foundation trusts is therefore to show that they are achieving this.

The Healthcare Commission's annual health check provides a robust external assessment of the performance of all NHS organisations. On page 11 of this report we described the good performance of NHS foundation trusts in the use of resources component of the health check. The table overleaf sets out the performance of NHS foundation trusts on quality of services.

In aggregate 68% of NHS foundation trusts achieved an excellent or good rating for quality of services compared with 50% of non-foundation trusts (this comparison covers only acute and specialist trusts authorised as at October 2006).

While this shows that the majority of NHS foundation trusts are meeting their obligations on national core standards and targets, it also indicates a number of NHS foundation trusts where there is scope for improvement.

NHS foundation trusts are required under their terms of authorisation to meet national healthcare standards and targets. Where there are issues relating to performance, it is the responsibility of the board of directors of each NHS foundation trust to address them.

In September 2006 Monitor's guidance, *NHS Foundation Trusts: Clinical Quality and Service Performance*, outlined how boards should address these issues and how Monitor would respond.

Monitor requires the boards of all NHS foundation trusts to make a declaration on their performance in meeting standards and targets as part of their annual plan submission to Monitor. The performance against national targets is also updated as part of quarterly monitoring. This information then forms part of Monitor's assessment of governance.

The recent publication describes how Monitor works with the Healthcare Commission in dealing with these issues and how both organisations would work together in the event of significant failings on clinical quality being identified in an NHS foundation trust.

One NHS foundation trust was rated "red" for governance by Monitor in 2005-06 – Moorfields Eye Hospital NHS Foundation Trust, which was also the only NHS foundation trust rated "weak" on quality of services by the Healthcare Commission.

Monitor's red rating was triggered by breaches of targets for waiting times. These were reported to Monitor in the quarterly governance declarations, and Monitor's compliance team was provided with regular updates on progress made. After two quarters rated "red", and the delivery of an agreed action plan to rectify the identified failings, Moorfields reverted to an "amber" rating at the start of 2006-07, although its performance in this area remains closely monitored.

Performance against standards and targets continued

Healthcare Commission's annual health check: performance of NHS foundation trusts on quality of services

NHS foundation trust	Quality of services
Barnsley Hospital	Good
Basildon and Thurrock University Hospitals	Good
Bradford Teaching Hospitals	Good
Cambridge University Hospitals	Good
Chesterfield Royal Hospital	Fair
City Hospitals Sunderland	Excellent
Countess of Chester Hospital	Good
Derby Hospitals	Good
Doncaster and Bassetlaw Hospitals	Good
Frimley Park Hospital	Good
Gateshead Health	Good
Gloucestershire Hospitals	Good
Guy's and St Thomas'	Good
Harrogate and District	Excellent
Heart of England	Fair
Homerton University Hospital	Good
Lancashire Teaching Hospitals	Fair
Liverpool Women's	Good
Moorfields Eye Hospital	Weak
Papworth Hospital	Fair
Peterborough and Stamford Hospitals	Good
Queen Victoria Hospital	Fair
Rotherham	Fair
Royal Devon and Exeter	Fair
Royal National Hospital for Rheumatic Diseases	Excellent
Sheffield Teaching Hospitals	Good
South Tyneside	Good
Stockport	Good
The Royal Bournemouth & Christchurch Hospitals	Fair
The Royal Marsden	Excellent
University College London Hospitals	Good
University Hospital Birmingham	Good

Working with members and governors

- **NHS foundation trusts have increased membership from 420,000 to over 600,000**
- **Active steps are being taken to ensure that membership is representative of local communities**
- **NHS foundation trusts are developing their governors so that they provide effective scrutiny of the directors**

Local accountability

NHS foundation trusts have a new framework of local accountability; scrutiny is provided by members and governors.

Members are drawn from the public in the local area served by the NHS foundation trust, from patients (the patients' group is optional) and from staff.

Members in turn elect the majority of the board of governors. The board of governors has a range of responsibilities including:

- appointing or removing the chair and non-executive directors;
- approving the appointment of the Chief Executive;
- appointing the auditors of the trust; and
- considering the trust's annual forward plan.

Achieving representative membership

NHS foundation trusts are required to take steps to ensure that membership is representative of the communities they serve. It is a responsibility which NHS foundation trusts have taken seriously.

The case study on page 20 describes the work undertaken by Harrogate and District NHS Foundation Trust. Another trust which took significant steps during the year was Chesterfield Royal Hospital NHS Foundation Trust. Its public constituencies include Chesterfield and also rural areas such as Derbyshire Dales and High Peak. Analysis showed that membership was low in Chesterfield itself, particularly in certain postcodes which were among the poorest in socio-economic terms. A targeted campaign was undertaken to 40,000 households, principally in the areas where membership was under-represented. This led to the recruitment of 3,300 new members, addressing the imbalance in the membership.

The 32 NHS foundation trusts increased membership from 421,000 at 31 March 2005 to 471,000 at 31 March 2006. There have been a further 20 NHS foundation trusts authorised in the period to 1 November 2006. At the time of authorisation these trusts had membership of 145,000 taking the aggregate number of NHS foundation trust members to 616,000.

Developing governors

A major challenge for NHS foundation trusts has been how to ensure that the governors have the skills and knowledge necessary to carry out their functions.

Cambridge University Hospitals NHS Foundation Trust provides a good example of how to equip governors with the skills which they require.

A series of seminars for governors has taken place during 2005-06. These have set out to improve governors' knowledge of both health issues and the governance framework of the trust. Topics covered in seminars have included local health needs, choice and the 'choose and book' system and the assessment framework for the board of directors.

Three governor and director working groups have been established which cover forward planning, governance and assurance, and membership and patient and public involvement. The groups bring directors and governors together to ensure that there is shared understanding of the challenges which the trust faces, and of how governors can best contribute to addressing those challenges.

Across all NHS foundation trusts, governors have been carrying out their formal roles in an effective manner, making sound appointments to non-executive director posts, appointing auditors and overseeing the activities of the organisation.

To date there have been no significant cases in which governors have come into conflict with boards of directors. This is welcome if it indicates that NHS foundation trusts are running themselves effectively. However, it may suggest that governors have not yet sufficiently found their feet. Monitor welcomes the proposal to establish a governors' forum, to be run by the King's Fund, which will provide a focus for governors to share information and learning. There will no doubt be challenges and changes ahead for many NHS foundation trusts and governors need to ensure that they are properly engaged in giving oversight to their organisations if local accountability is to have real force.

Membership figures at NHS foundation trusts

NHS foundation trust	Total membership as at 31/3/05	Total membership as at 31/3/06	Of which: Public[1]	Staff	Patient
Barnsley Hospital	12,508	12,602	9,670	2,932	-
Basildon and Thurrock University Hospitals	10,062	12,069	7,713	4,356	-
Bradford Teaching Hospitals	3,485	4,221	1,716	2,248	257
Cambridge University Hospitals	22,397	23,597	8,492	7,296	7,809
Chesterfield Royal Hospital	9,799	13,346	10,189	3,157	-
City Hospitals Sunderland	7,101	9,129	3,394	4,664	1,071
Countess of Chester Hospital	3,611	4,266	3,739	527	-
Derby Hospitals	9,647	13,994	6,560	7,434	-
Doncaster and Bassetlaw Hospitals	7,378	7,870	2,327	5,311	232
Frimley Park Hospital	5,841	7,671	6,103	1,568	-
Gateshead Health	9,121	11,171	7,852	3,319	-
Gloucestershire Hospitals	15,203	14,609	12,707	908	994
Guy's and St Thomas'	13,490	13,368	2,227	8,317	2,824
Harrogate and District	10,559	13,557	12,798	759	-
Heart of England	48,141	51,038	40,488	6,800	3,750
Homerton University Hospital	4,544	5,968	4,525	1,443	-
Lancashire Teaching Hospitals	9,394	14,592	3,079	5,784	5,729
Liverpool Women's	10,074	10,693	9,806	887	-
Moorfields Eye Hospital	11,436	11,487	8,882	1,305	1,300
Papworth Hospital	8,156	11,690	11,024	666	-
Peterborough and Stamford Hospitals	8,685	8,523	5,073	3,450	-
Queen Victoria Hospital	12,838	12,864	11,833	1,031	-
Rotherham	5,373	5,502	4,497	1,005	-
Royal Devon and Exeter	15,184	15,639	10,481	5,158	-
Royal National Hospital for Rheumatic Diseases	4,557	4,612	759	418	3,435
Sheffield Teaching Hospitals	6,505	18,168	1,870	12,823	3,475
South Tyneside	4,526	4,981	2,653	2,328	-
Stockport	11,535	11,938	8,279	3,659	-
The Royal Bournemouth & Christchurch Hospitals	13,305	14,990	13,995	995	-
The Royal Marsden	2,397	4,893	1,080	2,427	1,386
University College London Hospitals	8,592	10,194	543	6,600	3,051
University Hospital Birmingham	96,406	91,961	58,684	7,075	26,202
Total	**421,850**	**471,203**	**293,038**	**116,650**	**61,515**

1 For a number of NHS foundation trusts, this column shows public and patient figures combined.

Representing the community
Harrogate and District NHS Foundation Trust

Harrogate and District Chair, Dr Albert Day, with foundation trust members

Harrogate and District NHS Foundation Trust serves a large catchment area of over 500 square miles in Yorkshire, around Harrogate, Knaresborough, Ripon and Wetherby. As soon as it embarked on its NHS foundation trust application in 2004, the trust began a determined drive for members. That has continued since its authorisation in January 2005.

Its Chair, Dr Albert Day, explained why, "Our catchment area is very large geographically and we recognised that, to penetrate it effectively, we had to work hard to develop a membership that would want to be involved and that we could use to improve the way we work."

The board of governors established a series of member groups. "These have had real success and their input has already led to real improvements," said Albert. "However, building membership is a continuous process. We have several hard-to-reach groups, particularly young people and our major focus now is to increase membership from these under-represented groups by 10% each year."

> "To me, foundation trusts are all about improving the local NHS by finding out what people want."

Harrogate is doing this in a number of ways. "We have decided to make the most of our governors by sending them out to spread the message of social ownership. They go and talk to all sorts, like scout groups or air training corps. Others speak to more familiar groups – somebody in a suit is going to have far less impact with a group of young farmers than someone who talks their language."

Harrogate has also used younger members to review its publications. Albert said, "Their feedback has prompted a complete revamp. We are now working on two types of communications: one for most of our members, which will stay much the same, but another set for younger people, using more accessible language. And we're looking into using email and text messages as well."

The trust also has an annual open day that is interactive and educational. "We target senior pupils at secondary schools and students at further education colleges. In part, it's to show them the job opportunities that exist in the NHS but, on another level, it gives them the chance to pay an unthreatening visit to the hospital, ask anything and get a sensible, sensitive reply. We get a good spurt in young membership after each open day and it's a chance to get our message across and build trust.

To me, foundation trusts are all about improving the local NHS by finding out what people want, so it is important for us to ensure that local people of all ages feel comfortable when they are here and actually want to be here in the first place."

Freedoms for NHS foundation trusts

- **NHS foundation trusts have borrowed £52 million for investment in services**
- **Retained surpluses and borrowings are being used to improve patient services in a number of NHS foundation trusts**

The freedom to retain surpluses and to borrow are potentially the most significant freedoms that NHS foundation trusts enjoy. These freedoms will allow successful NHS foundation trusts to continue delivering high quality patient care. By investing in new services and improved facilities they will be able to meet patients' expectations for excellent healthcare, delivered in a safe, comfortable and attractive environment. It is therefore encouraging to see NHS foundation trusts begin to make use of their freedom to borrow.

The Prudential Borrowing Code

Monitor is required to set a borrowing limit for each NHS foundation trust in accordance with the *Prudential Borrowing Code* which was published in December 2004. The code links the borrowing limit for each organisation to its financial risk rating – the less financial risk that the NHS foundation trust faces, the greater the borrowing freedom it enjoys.

Under limits calculated in accordance with the code, the NHS foundation trusts had a borrowing capacity of £1.52 billion for 2005-06.

There are two parts to each NHS foundation trust's borrowing limit:

- the working capital limit allows an NHS foundation trust to manage its in-year cash position. Monitor recommends that an NHS foundation trust has working capital sufficient to cover 30 days' expenditure; and
- the long-term borrowing limit allows an NHS foundation trust to borrow commercially to fund capital investment.

Borrowing by NHS foundation trusts

At 31 March 2005 NHS foundation trusts had used only £52 million of long-term borrowing, a small proportion of their borrowing capacity. This is borrowing drawn down and in the case of several NHS foundation trusts represents only the initial draw down of a larger agreed loan.

Where long-term borrowing has taken place it has not been from commercial lenders but from the Foundation Trust Financing Facility. The facility was established by the Department of Health to provide a source of funding for NHS foundation trusts in the period until commercial lenders entered the market. It was recognised that commercial lenders would be reluctant to provide longer term funding to NHS foundation trusts until they had an established track record of operating as autonomous organisations against which their credit-worthiness could be assessed.

The facility, which is run on commercial lines, has been effective in allowing NHS foundation trusts to take their first steps in using their borrowing powers. It is a source of concern, however, that commercial lenders have not as yet entered the market. One reason for this may be that there is as yet no mechanism in place for managing insolvency. Monitor's *Compliance Framework* gives lenders assurance that any financial problems in an NHS foundation trust are identified promptly and tackled effectively. However there cannot be any guarantees that financial failures will not occur and any commercial lender will need to know what would happen in those circumstances, before entering into a loan agreement.

Monitor welcomes the Department of Health's commitment to make regulations on insolvency during 2007 which will establish an important piece of the regulatory framework.

Improving services for patients

Homerton NHS Foundation Trust was one of the first NHS foundation trusts to use its borrowing freedoms. It has agreed a £9.1 million loan from the Foundation Trust Financing Facility of which £1.6 million had been drawn at the end of March. The trust has invested the funding in a perinatal centre which is set to open in 2008.

Cambridge University Hospitals NHS Foundation Trust has committed to long-term borrowing of £10.4 million. This is being used in the development of a new £10 million building which combines the hospital's accident and emergency department with its medical admissions unit. The new facility will provide a better patient experience by integrating services, allowing flexible admissions management and reducing patient travel through the hospital site.

The Royal Marsden NHS Foundation Trust has been able to fund an increase in investment through using its retained surplus of £1.9 million. Part of this surplus has been used to fund early implementation of PACS (picture archiving and communications systems). The PACS system has improved the organisation's imaging capability and supports delivery of care from other locations.

Stockport NHS Foundation Trust has borrowed £16 million. The funding is for a cardiology and surgical unit which will provide additional theatres, a 32-bed short-stay unit, an eight-bed coronary care facility and a 21-bed clinical management unit.

Borrowing limits for NHS foundation trusts 2005-06 (£ million)

NHS foundation trust	Long-term borrowing limit	Actual borrowing	Working capital facility	Actual borrowing	Prudential borrowing limit
Barnsley Hospital	13.20	-	8.00	-	21.20
Basildon and Thurrock University Hospitals	30.50	-	12.00	-	42.50
Bradford Teaching Hospitals	19.50	-	16.50	-	36.00
Cambridge University Hospitals	42.70	10.40	28.40	-	71.10
Chesterfield Royal Hospital	28.20	-	10.00	-	38.20
City Hospitals Sunderland	30.10	5.00	18.00	2.30	48.10
Countess of Chester Hospital	15.90	-	10.00	-	25.90
Derby Hospitals	59.70	-	19.50	-	79.20
Doncaster and Bassetlaw Hospitals	50.10	-	15.00	-	65.10
Frimley Park Hospital	32.80	-	12.50	-	45.30
Gateshead Health	24.00	-	12.00	-	36.00
Gloucestershire Hospitals	40.70	-	15.00	-	55.70
Guy's and St Thomas'	139.70	-	30.00	-	169.70
Harrogate and District	11.00	-	7.50	-	18.50
Heart of England	44.60	-	18.75	-	63.35
Homerton University Hospital	10.00	0.84	11.00	1.58	21.00
Lancashire Teaching Hospitals	28.00	-	15.00	-	43.00
Liverpool Women's	15.70	-	5.00	-	20.70
Moorfields Eye Hospital	16.20	7.90	6.00	-	22.20
Papworth Hospital	10.56	-	6.00	-	16.56
Peterborough and Stamford Hospitals	6.60	-	12.00	-	18.60
Queen Victoria Hospital	5.00	-	3.00	-	8.00
Rotherham	29.20	-	10.00	-	39.20
Royal Devon and Exeter	29.90	12.00	18.00	-	47.90
Royal National Hospital for Rheumatic Diseases	2.80	-	1.00	-	3.80
Sheffield Teaching Hospitals	85.20	-	46.00	-	131.20
South Tyneside	18.50	-	7.00	-	25.50
Stockport	23.00	16.00	10.00	-	33.00
The Royal Bournemouth & Christchurch Hospitals	26.80	-	9.00	-	35.80
The Royal Marsden	31.70	-	5.50	-	37.20
University College London Hospitals	77.00	-	30.00	-	107.00
University Hospital Birmingham	77.10	-	19.50	-	96.60
	1,075.96	**52.14**	**447.15**	**3.88**	**1,523.11**

Improving patient services
Frimley Park Hospital NHS Foundation Trust

Frimley Park Hospital became an NHS foundation trust in April 2005. It serves a number of communities on the Surrey, Hampshire and Berkshire borders, providing a wide range of district general hospital services.

Over the past 18 months, Frimley Park has used its financial success to invest in better facilities and improved patient care. The first investment was a £5 million ophthalmology treatment centre.

"Before we built the new centre," said Andrew Morris, the Chief Executive, "we were treating around 38,000 patients a year in little more than a corridor. Now we have a new, state of the art centre.

"We have used this opportunity to redesign our pathways for cataract treatment completely. We have increased the proportion of cataract surgery that is done on a day-care basis and made it more of a one-stop visit. With our nursing staff, we have also developed a triage service over the telephone to cut the number of follow-up visits. So this centre has made a big difference to our patients."

Further investment has reduced waiting times for radiology investigations; in particular, cutting the wait for CT scans, MRI and ultrasound tests in half. The trust has also increased the capacity of its critical care unit and built a new cardiac catheter lab. Andrew explained, "Patients had historically been referred to a number of different hospitals, including London, for cardiac catheter treatment. Now they can be treated locally, which is much quicker and far more convenient.

"Our level 3 critical care area now has new equipment, more staff, more beds and consultant cover seven days a week. We have also introduced an eight-bed step-down facility, so we can discharge patients to an intermediate level where they can receive more appropriate care than would be possible in a normal ward."

Mike Aaronson, Frimley Park's Chairman, described their plans for the future. "Over the next three years we intend to expand our capacity for obstetrics, possibly by 50%. Mothers want to come here for delivery and our clinical procedures have been recognised as excellent, so we expect more referrals going forward."

"Our level 3 critical care area now has new equipment, more staff, more beds and consultant cover seven days a week."

"The freedom of foundation trust status is cultural as well as financial," Mike said. "As a foundation trust, what drives quality improvements is being accountable to patients and simply asking, what is best for them? To me, it is obvious that linking foundation trusts to the community organically, through their governance structure, is the right thing to do and provides a better public service."

(L-R) Dr Peter Clarkson, Consultant Cardiologist, talks to Chairman Mike Aaronson and Chief Executive Andrew Morris in the new cardiac catheter lab at Frimley Park Hospital NHS Foundation Trust.

Planning for the future

This report has described an encouraging picture. NHS foundation trusts are demonstrating strong management skills and financial rigour. These are necessary pre-cursors to the delivery of good quality patient care.

NHS foundation trusts are a key part of the Government's vision for the NHS in the future in which patients can choose, and commissioners can purchase high quality healthcare from a range of providers, with NHS foundation trust the most common status for providers in the NHS.

If that vision is to be realised a number of things need to happen.

Growing the NHS foundation trust sector

The Department of Health needs to ensure that there remains a pipeline of high quality applicants, able to meet Monitor's tests to become NHS foundation trusts. Monitor has worked with the Department of Health and the strategic health authorities on a diagnostic programme to help all trusts understand the steps they need to take to be ready to apply. It is essential that the action plans from that programme are implemented if the number of NHS foundation trusts is to continue to grow steadily over the next three years.

In May 2006 we authorised the first three mental health foundation trusts and there has been encouraging enthusiasm among other mental health trusts for the benefits of NHS foundation trust status. We are also working with the Department of Health on a project to scope the potential for providers of services in primary care to become community foundation trusts.

Growing surpluses

Earlier in this report we commented on the need for NHS foundation trusts to continue improving efficiency and increasing margins. This will generate larger surpluses.

There is reluctance among some NHS foundation trusts to be seen making surpluses. This arises from a view that, particularly at a time when many NHS organisations are incurring deficits, it is either inappropriate to be making surpluses, or else there is a risk that commissioners will use the existence of surpluses as a justification for adopting a difficult negotiating position in contract disputes.

If true, this analysis would suggest a fundamental misunderstanding of the market-based reforms and the payment by results system, which are intended to incentivise efficiency within NHS organisations. Without greater efficiency the financial pressures on the NHS will become unmanageable. The creation of surpluses is a measure of how efficient organisations are. Crucially, as NHS foundation trusts, the surpluses can only be used to reinvest in the organisation in order to improve services. Investment is essential if buildings and equipment are to be maintained to a high standard and regularly refurbished or replaced.

Opportunities for growth

The best NHS foundation trusts should also now be developing strategies for how they plan to grow and develop their organisations.

Heart of England NHS Foundation Trust is currently in advanced stages of discussion to acquire the Good Hope NHS Trust. Heart of England believes that this will help it meet its objective of providing good quality healthcare to the people of Birmingham. More work still needs to be done on the detail of the acquisition, and then on ensuring that the two organisations are successfully integrated. Providing this happens, this will demonstrate how well managed NHS foundation trusts can put their skills to effective use.

We would encourage other NHS foundation trusts to consider the opportunities to develop their organisations. Providing the focus remains on how to deliver high quality patient care for the NHS, rather than growth for growth's sake, then NHS foundation trusts should be readily able to identify opportunities.

Challenges for Monitor

There are also challenges for Monitor. We need to ensure that our regulatory framework contributes to an environment in which NHS foundation trusts can innovate and develop. We need to remain alert to trusts that face difficulties and ensure that these are addressed without a detrimental effect on patient care. We need to encourage NHS foundation trusts to develop strategies to succeed while continuing to operate within a framework which is both proportionate and effective in the identification of risk.

If we can achieve this we will be able to report on the continued development of NHS foundation trusts as a successful part of the healthcare reforms.

Summary information about NHS foundation trusts (as at 31 March 2006)

NHS foundation trust	Income 2005-06 (£ million)	Surplus/ (deficit) 2004-05 restated (£ million)	Surplus/ deficit 2005-06 (£ million)	No. of members	Private patient income cap	Auditor (2005-06)
Barnsley Hospital	116	0	0	12,602	0.1%	Audit Commission
Basildon and Thurrock	163	1.4	0.2	12,069	0.6%	Audit Commission
Bradford Teaching Hospitals	220	(6.4)	(2.9)	4,221	1.0%	Audit Commission
Cambridge University	380	(2.9)	3.5	23,597	2.0%	PwC[1]
Chesterfield Royal Hospital	135	0	3.9	13,346	0.2%	Audit Commission
City Hospitals Sunderland	221	(2.8)	(5.6)	9,129	0.4%	Audit Commission
Countess of Chester Hospital	133	0.1	2.6	4,266	0.6%	Audit Commission
Derby Hospitals	281	(0.7)	(0.7)	13,994	1.2%	Audit Commission
Doncaster and Bassetlaw Hospitals	236	0.2	1.5	7,870	0.2%	Audit Commission
Frimley Park Hospital	154	N/A	3.6	7,671	4.9%	Audit Commission
Gateshead Health	138	0.5	(0.4)	11,171	0.3%	Audit Commission
Gloucestershire Hospitals	333	(3.8)	0.8	14,609	2.1%	RSM Robson Rhodes
Guy's and St Thomas'	660	3.9	0.3	13,368	2.9%	Audit Commission
Harrogate and District	89	0	0	13,557	3.1%	RSM Robson Rhodes
Heart of England	281	N/A	5.4	51,038	0.2%	PwC
Homerton University Hospital	138	0	(0.4)	5,968	0.2%	KPMG
Lancashire Teaching Hospitals	267	N/A	(2.8)	14,592	0.5%	KPMG
Liverpool Women's	71	N/A	0.6	10,693	1.8%	Baker Tilly
Moorfields Eye Hospital	80	1.7	0	11,487	13.7%	Deloitte
Papworth Hospital	86	(0.1)	0.1	11,690	6.1%	PwC
Peterborough and Stamford Hospitals	153	(7.7)	(1.0)	8,523	0.6%	RSM Robson Rhodes
Queen Victoria Hospital	41	0.3	0.5	12,864	0.2%	PwC
Rotherham	110	N/A	(1.1)	5,502	0.1%	Audit Commission
Royal Devon and Exeter	242	(5.8)	(0.5)	15,639	1.2%	PwC
Royal National Hospital for Rheumatic Diseases	14	N/A	(0.2)	4,612	1.3%	PwC

1 PricewaterhouseCoopers

NHS foundation trust	Income 2005-06 (£ million)	Surplus/ (deficit) 2004-05 restated (£ million)	Surplus/ deficit 2005-06 (£ million)	No. of members	Private patient income cap	Auditor (2005-06)
Sheffield Teaching Hospitals	612	0.3	0.6	18,168	0.9%	Audit Commission
South Tyneside	90	1.6	0.1	4,981	0.1%	Audit Commission
Stockport	166	0.7	3.5	11,938	0.1%	Audit Commission
The Royal Bournemouth & Christchurch Hospitals	177	N/A	1.6	14,990	0.7%	Audit Commission
The Royal Marsden	157	0.8	1.9	4,893	30.7%	Deloitte
University College London Hospitals	462	(13.9)	(35.9)	10,194	5.9%	Audit Commission
University Hospital Birmingham	379	1.1	(3.5)	91,961	1.3%	KPMG

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 (the Act). Paragraph 25(6)(a) of Schedule 1 of 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 2 of 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 accounts 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 32 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2006.

The dates of authorisation of these 32 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 2006 and the year ended 31 March 2005

- 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 2006 and the nine-month period ended 31 March 2005

- 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 2006 and the three-month period ended 31 March 2005

- 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 2006 and the 85-day period ended 31 March 2005

- Gateshead Health NHS Foundation Trust

Authorised 1 April 2005 and consolidated for 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 & Christchurch Hospitals NHS Foundation Trust

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

- The Rotherham NHS Foundation Trust

Consolidated results for the year ended 31 March 2006

In aggregate, NHS foundation trusts made a surplus after taxation for the year ended 31 March 2006 of £144.4 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 £23.2 million for the year ended 31 March 2006. Pages 6 to 27 set out a review of the NHS foundation trusts' development during the year.

William Moyes
Executive Chairman
28 November 2006

Statement of responsibilities and accountability framework

Dr William Moyes is the Executive Chairman of Monitor. In this capacity under Paragraph 11(3) of Schedule 2 of the Act 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 Section 11(3) of Schedule 2 of 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. In relation to preparing these accounts, Monitor has established the following processes to ensure these accounts provide a true and fair view of the state of affairs of the NHS foundation trust sector:

- obtaining expertise in accounts preparation for the consolidation;
- provision of guidance to the NHS foundation trusts and their auditors, including consolidation processes. This has been approved by HM Treasury;
- establishment of the Technical Issues Forum to ensure consistent financial reporting and audit;
- reliance on the work of the auditors of NHS foundation trusts over the truth and fairness of each set of accounts that have been consolidated into the consolidated accounts presented in this report. The board of governors of each NHS foundation trust is responsible for appointing external auditors. These auditors have 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;
- the appointment of the Comptroller and Auditor General to undertake an audit of the consolidated accounts presented in this report; and
- consideration by management and Monitor's Audit Committee of the consolidated account 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 remit of the board of each individual NHS foundation trust. The Chief Executive as accounting officer of each NHS foundation trust has the 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 the 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, presented to Parliament directly, included a statement on internal control for the year ended 31 March 2006. These statements confirmed that all the NHS foundation trusts had systems of internal control in place for the financial year 2005-06 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.

Highlights of NHS foundation trusts' statements on internal control

As reported in the individual statements, the NHS foundation trusts have faced a challenging year due to financial pressures within the NHS and the adjustment to Government initiatives including payment by results. Whilst not highlighted as significant control issues, several NHS foundation trusts noted concerns in relation to financial deficits and have implemented financial recovery plans. Monitor will review progress against these deficits through the compliance regime.

In addition to the above challenges, many NHS foundation trusts have been implementing new systems; in particular electronic patient records to enhance data capture and improve patient care. Despite these challenges, NHS foundation trusts reported improvements to their internal control systems during the year, including:

- increased emphasis on a risk based approach to control; and
- more stringent financial management.

The focus for the system of internal control for 2006-07 for many of the NHS foundation trusts is on:

- enhancing IT systems and environment; and
- improvements in achievement of national healthcare targets relating to cancer, waiting times and reduction in the incidence of hospital acquired infection.

Significant financial control issues

Two of the NHS foundation trusts disclosed significant financial control issues in their 2005-06 statements on internal control.

University College London Hospitals NHS Foundation Trust

2005-06 saw the opening of a new hospital on Euston Road, the largest and most ambitious NHS Private Finance Initiative scheme to date, together with a major programme of system developments and a very substantial agenda of service reprovision and estate rationalisation. These challenges put pressure on the internal controls and management processes within the trust. A detailed recovery plan is now in place to address control weaknesses and improve financial management.

Homerton University Hospital NHS Foundation Trust

The trust ended 2005-06 with a small deficit. Action was taken throughout the year to reduce the costs but the financial pressure has continued into 2006-07. A financial recovery programme is now in place.

Two NHS foundation trusts noted significant control issues in their 2004-05 statements on internal control. These were:

- Bradford Teaching Hospitals NHS Foundation Trust which in 2004-05 was subject to a significant control issue with regard to its financial position. A financial recovery plan was implemented to address the issues and no significant control issues remain in 2005-06.
- Homerton University Hospital NHS Foundation Trust had a number of operational and financial challenges arising from the implementation of an electronic patient records system in 2004-05. A detailed project plan was established and the majority of the risks have been addressed in 2005-06.

William Moyes
Executive Chairman
28 November 2006

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 2006 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 Health and Social Care (Community Health and Standards) Act 2003 for preparing a report which provides an overall summary of the accounts of NHS foundation trusts. As described on page 30, in discharging its responsibilities under Section 11(3) of Schedule 2 of 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 if, in my opinion, the review is not consistent with the financial statements, 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. This other information comprises only the review and foreword to the accounts. 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 continued

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 or other irregularity. 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 2006 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the accounting policies set out within them.

The maintenance and integrity of Monitor's website is the responsibility of the Executive Chairman; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

John Bourn
Comptroller and Auditor General
29 November 2006

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

	Note	2006 £ million	Restated 2005 £ million
Income from activities	3.1	5,688.6	3,391.6
Other operating income	3.2	1,073.8	715.1
Impairments		(6.5)	(7.9)
Other operating expenses	4.1	(6,627.0)	(4,040.8)
Operating surplus		**128.9**	**58.0**
Exceptional items	6	(6.5)	0.0
Profit/ (loss) on disposal of fixed assets	7	8.9	(1.3)
Surplus before interest		**131.3**	**56.7**
Interest receivable		18.8	9.4
Interest payable	8	(1.4)	(0.6)
Other finance costs – unwinding of discount	17	(0.9)	(0.8)
Other finance costs – change in discount rate on provisions	17	(3.3)	0.0
Surplus before taxation		**144.5**	**64.7**
Taxation		(0.1)	0.0
Surplus/(deficit) after taxation		**144.4**	**64.7**
PDC dividends payable	18	(167.6)	(97.2)
Retained deficit for the year		**(23.2)**	**(32.5)**

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 39 to 61 form part of these accounts.

Consolidated balance sheet as at 31 March

	Note	2006 £ million	Restated 2005 £ million
Fixed assets			
Intangible assets	9	12.7	6.1
Tangible assets	10.1	5,322.1	4,355.3
Total fixed assets		**5,334.8**	**4,361.4**
Current assets			
Stocks and work in progress	11	98.7	83.6
Debtors falling due within one year	12	411.5	364.3
Debtor amounts due after one year	12	70.6	24.6
Investments	13	52.4	36.4
Cash at bank and in hand		259.1	117.2
Total current assets		**892.3**	**626.1**
Creditors			
Amounts falling due within one year	14	(754.5)	(574.0)
Net current assets/(liabilities)		**137.8**	**52.1**
Total assets less current liabilities		**5,472.6**	**4,413.5**
Long-term creditors			
Amounts falling due after more than one year	14	(73.3)	(21.8)
Provision for liabilities and charges	17	(103.8)	(82.4)
Total assets employed		**5,295.5**	**4,309.3**
Financed by taxpayers' equity			
Public dividend capital	19	3,204.5	2,485.3
Revaluation reserve	20	1,599.2	1,373.4
Donated asset reserve	20	438.3	395.0
Other reserves	20	7.8	7.2
Income and expenditure reserve	20	45.7	48.4
Total taxpayers' equity		**5,295.5**	**4,309.3**

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

The notes on pages 39 to 61 form part of these accounts.

William Moyes
Executive Chairman
28 November 2006

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

	Note	2006 £ million	Restated 2005 £ million
Surplus for the financial year before dividend payments		144.4	64.7
Fixed asset impairment losses	20	(11.3)	(5.6)
Unrealised surplus on fixed assets and current asset investments revaluations	20	15.5	252.3
Increase in the donated asset reserve due to receipt of donated assets	20	50.6	49.5
Reductions in the donated asset reserve due to depreciation, impairment, and/or disposal of donated assets	20	(24.1)	(19.2)
Additions/(reductions) in "Other reserves"	20	0.6	0.0
Other recognised gains and losses	20	(5.6)	0.0
Total recognised gains and losses for the financial year		**170.1**	**341.7**
Prior period adjustments	22c	4.4	
Total recognised gains and losses since the last financial year		**174.5**	

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

The notes on pages 39 to 61 form part of these accounts.

Consolidated cash flow statement year ended 31 March

	Note	2006 £ million	2005 £ million
Net cash inflow/(outflow) from operating activities	21.1	**392.8**	**296.9**
Returns on investment and servicing of finance			
Interest received		18.8	9.3
Interest paid		(1.8)	(0.3)
Interest element of finance lease rental payments		0.0	(0.3)
Net cash inflow from returns on investments and servicing of finance		**17.0**	**8.7**
Capital expenditure			
(Payments) to acquire tangible fixed assets		(382.7)	(249.8)
Receipts from sale of tangible fixed assets		57.6	22.0
(Payments) to acquire intangible assets		(6.9)	(1.6)
Net cash inflow/(outflow) from capital expenditure		**(332.0)**	**(229.4)**
Dividends paid		(168.1)	(112.0)
Net cash inflow/(outflow) before management of liquid resources and financing		**(90.3)**	**(35.8)**
Management of liquid resources			
(Purchase) of current asset investments		(491.0)	(23.9)
Sale of current asset investments		475.2	9.0
Net cash inflow/(outflow) from management of liquid resources		**(15.8)**	**(14.9)**
Net cash inflow/(outflow) before financing		**(106.1)**	**(50.7)**
Financing			
New public dividend capital received		155.6	137.5
Public dividend capital repaid	19	(21.5)	(53.9)
Loans received from Foundation Trust Financing Facility		52.1	6.0
Other loans received		8.2	3.1
Loans repaid to Foundation Trust Financing Facility		(3.3)	0.0
Other loans repaid		(6.4)	0.0
Other capital receipts		65.7	36.5
Capital element of finance lease rental payments		0.0	(0.5)
Net cash inflow/(outflow) from financing		**250.4**	**128.7**
Increase/(decrease) in cash	21.3	**144.3**	**78.0**

The notes on pages 39 to 61 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 2005-06.

Monitor has directed NHS foundation trusts, in accordance with Section 25 of Schedule 2 to the Health and Social Care (Community Health and Standards) Act 2003, to apply the accounting requirements of the *NHS Foundation Trust Financial Reporting Manual* (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* (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 and are only for the periods for which they were foundation trusts in 2004-05, which in some cases was less than a full year. The prior year figures are not, therefore, directly comparable with current year figures. The results of NHS foundation trusts that were authorised in 2005-06 are not shown separately from the results of the existing NHS foundation trusts. Some of the existing NHS foundation trusts were authorised mid-year in 2004-05 and the prior year figures for these NHS foundation trusts are not directly comparable. The current year net surplus or deficit for each NHS foundation trust for 2005-06 and 2004-05 are detailed on pages 26 and 27.

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

Notes to the accounts continued

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.

In the previous accounting period the provision of a clinical service was recognised at its completion. In accordance with the provisions of the FT FReM, the income relating to episodes of care which are partially complete at the end of an accounting period is now divided pro rata across the periods in which the episode takes place. This treatment conforms to FRS 5 and UITF 40 and is a change in accounting policy in recognition of which the relevant figures for the previous accounting period have been restated.

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 S31 of the Health Act 1999 for 2005-06 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 if 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 if 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 in accordance with FRS 15 every five years. 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 charge in the fair value of the 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 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 S519A Income and Corporation Taxes Act 1988 to provide power to the Treasury to make certain non-core activities of NHS foundation trusts potentially subject to corporation tax. This legislation is effective from 12 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 above 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 value of the sale proceeds is transferred from the donated asset reserve to the income and expenditure reserve.

Government grants

In the previous period a government grant reserve was established to record capital funding received from the Department of Health in recognition of

Notes to the accounts continued

the achievement of three-star status. In order to comply fully with UK GAAP this funding has now been reclassified as deferred income. This is a change from previous accounting policy and the relevant figures for the previous period have therefore been restated in these accounts.

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 overdraft

Cash, bank and overdraft balances are recorded at the current values of these balances in the NHS foundations trusts' cash books. These balances exclude monies held in the NHS foundation trusts' bank accounts belonging to patients (see "third party assets" below). Account balances are only set off 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; and
- 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.

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

The 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 the Treasury's discount rate of 2.2% in real terms. This is a change from the rate of 3.5% applied in the previous year. The effect of the change is to increase the carrying value of the provision and this is shown in the income and expenditure account.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trusts 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 15 to the Accounts.

Non-clinical risk pooling

The NHS foundation trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the trusts pay an annual contribution to the NHS Litigation Authority 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 the 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 annual *NHS Pension Scheme (England and Wales) Resource Account*, published annually. These accounts can be viewed on the NHS Pensions Agency 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 1April 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 contributions 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 though money purchase 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 the 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 a trust commits itself to the retirement, regardless of the method of payment.

Notes to the accounts continued

The pension payments for the period are charged to the income and expenditure account. Details are included in Note 5.4 to the accounts.

Value added tax

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.

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

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 trusts. 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.

Protected assets

Section 16 of the Health and Social Care (Community Health and Standards) Act 2003 provides that:

"An NHS foundation trust may not dispose of any protected property without the approval of the Regulator. Disposing of property includes disposing of part of it or granting an interest in it."

Protected property is property designated as protected in the Terms of Authorisation (ToA) of a NHS foundation trust. Condition 9 of this ToA defines property as protected if it is required for the purposes of providing either the mandatory goods and services of the mandatory education and training as defined in the ToA ('mandatory goods and services'). Note 10.2 provides details of the protected assets of NHS foundation trusts as at 31 March 2006.

2. Income – segmental information

	£ million Healthcare	£ million Other	2006 £ million TOTAL	Restated 2005 £ million
Income from activities	5,688.6	0.0	5,688.6	3,391.6
Other operating income	1,070.9	2.9	1,073.8	715.1
Total income	**6,759.5**	**2.9**	**6,762.4**	**4,106.7**
Surplus/(deficit) before interest and common costs	130.4	0.9	131.3	61.8
Common costs	0.0	0.0	0.0	5.1
Surplus/(deficit) before interest	**130.4**	**0.9**	**131.3**	**56.7**
Total assets employed	**5,294.0**	**1.5**	**5,295.5**	**4,309.3**

3.1 Income from activities

	2006 £ million	Restated 2005 £ million
Elective income	1,367.7	1,115.6
Non elective income	1,876.2	937.1
Outpatient income	1,009.7	599.0
Other type of activity income	1,238.5	653.8
A & E income	204.2	112.9
PBR (clawback)/relief	(106.1)	(100.1)
Private patient income	98.4	73.3
Total	**5,688.6**	**3,391.6**

The prior year comparatives have been restated to take account of the prior year adjustments set out in Note 22. The prior year comparatives have also been restated to show PBR (clawback)/ relief as one category; in the prior year this was shown as two separate lines.

Notes to the accounts continued

3.2 Other operating income

	2006 £ million	Restated 2005 £ million
Research and development	119.2	76.3
Education and training	419.2	279.6
Charitable and other contributions to expenditure	16.8	12.9
Transfers from the donated asset reserve in respect of depreciation, impairment and disposal of donated assets	24.1	19.1
Non-patient care services to other bodies	203.6	111.9
Other	290.9	215.3
Total	**1,073.8**	**715.1**

4.1 Operating expenses

	2006 £ million	Restated 2005 £ million
Services from NHS trusts	80.7	53.9
Services from other NHS bodies	91.7	60.8
Purchase of healthcare from non-NHS bodies	19.6	15.0
Directors' costs	26.0	14.8
Staff costs	4,208.4	2,561.0
Drug costs	518.9	308.2
Supplies and services – clinical (excluding drug costs)	610.6	390.3
Supplies and services – general	125.5	77.0
Establishment	91.4	67.4
Research and development	3.5	0.0
Transport	22.6	14.1
Premises	348.0	187.7
Bad debts	28.1	8.9
Depreciation and amortisation	240.9	154.8
Audit fees	2.6	2.4
Other auditors remuneration	0.3	0.1
Clinical negligence	76.0	37.9
Net increase in provisions	41.9	40.6
Other	90.3	45.9
Total	**6,627.0**	**4,040.8**

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

4.2 Hire and operating lease rentals

	2006 £ million	2005 £ million
Hire of plant and machinery	9.5	7.4
Other operating lease rentals	41.5	12.9

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	5.0	6.9
Expiring between one and five years	5.9	15.7
Expiring after five years	39.0	14.4
Total	**49.9**	**37.0**

5.1 Staff costs

	Total £ million	2006 Permanently employed £ million	Other £ million	2005 £ million
Salaries and wages	3,459.3	3,411.7	47.6	2,094.0
Social security costs	269.4	267.2	2.2	165.2
Employers' contribution to NHSPA	380.8	378.2	2.6	226.1
Other pension costs	0.2	0.2	0.0	0.1
Agency and contract staff	132.5	0.0	132.5	89.4
Total	**4,242.2**	**4,057.3**	**184.9**	**2,574.8**

In Note 4.1 Operating Expenses, £10.5 million of staff costs are included under 'Services from NHS trusts', 'Services from other NHS bodies' and 'Research and development'.

Notes to the accounts continued

5.2 Average number of total staff

	Total £ million	2006 Permanently employed £ million	Other £ million	2005 £ million
Medical and dental	13,318	12,709	609	10,790
Administration and estates	25,366	24,786	580	21,042
Healthcare assistants and other support staff	14,743	14,337	406	12,457
Nursing, midwifery and health visiting staff	43,513	42,820	693	35,969
Nursing, midwifery and health visiting learners	1,055	918	137	1,307
Scientific, therapeutic and technical staff	18,000	17,710	290	14,529
Social care staff	22	22	0	449
Bank and agency staff	3,436	0	3,436	1,336
Other	2,542	2,493	49	893
Total	**121,995**	**115,795**	**6,200**	**98,772**

5.3 Staff benefits

The amount spent on staff benefits during the year totalled £202,000 (2004-05: £149,000).

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 2005-06, the contribution rate was 14% (2004-05: 14%).

5.5 Retirements due to ill health

During 2005-06 there were 175 early retirements on the grounds of ill health (2004-05: 145). The estimated additional pension liability of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £8.6 million (2004-05: £5.6 million).

6. Exceptional items

	2006 £ million	2005 £ million
Lancashire Teaching Hospitals NHS Foundation Trust repayment of financial loss made operating as NHS trust.	2.9	0
University Hospital Birmingham NHS Foundation Trust's accelerated depreciation for new hospital build.	3.6	0
Total	**6.5**	**0.0**

These items have been treated as exceptional items in the underlying NHS foundation trust accounts.

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

	2006 £ million	2005 £ million
Profit on disposal of intangible fixed assets	0	(0.1)
Profit on disposal of land and buildings	15.7	0.5
(Loss) on disposal of land and buildings	(5.7)	(0.7)
Profit on disposal of other tangible fixed assets	0.2	0
(Loss) on disposal of other tangible fixed assets	(1.3)	(1.0)
Total	**8.9**	**(1.3)**

8. Interest payable

	2006 £ million	2005 £ million
Bank overdrafts and loans	1.2	0
Finance leases	0	0.5
Other	0.2	0.1
Total	**1.4**	**0.6**

9. Intangible fixed assets

	Total £ million
Gross cost at 1 April 2005	11.6
At start of period for new NHS foundation trusts	3.9
Reclassifications	0.1
Additions – purchased	6.9
Additions – donated	0.1
Disposals	(0.3)
Gross cost at 31 March 2006	**22.3**
Amortisation at 1 April 2005	5.5
At start of period for new NHS foundation trusts	2.1
Provided during the year	2.3
Disposals	(0.3)
Amortisation at 31 March 2006	**9.6**
NBV – Purchased at start of period	5.6
NBV – Donated at start of period	0.5
Total NBV at start of period	**6.1**
NBV – Purchased at 31 March 2006	12.3
NBV – Donated at 31 March 2006	0.4
Total NBV at 31 March 2006	**12.7**

All material intangible fixed assets consist of software licences.

Notes to the accounts continued

10.1 Tangible fixed assets

	Total	Land	Buildings excl. dwellings	Dwellings	Assets under construction & payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Gross cost or valuation at 1 April 2005	**5,133.2**	865.0	2,921.6	63.1	231.2	850.1	7.8	152.5	41.9
At start of period for new NHS foundation trusts	**978.1**	170.3	598.6	8.8	15.4	137.2	1.4	34.0	12.4
Additions – purchased	**347.8**	1.1	70.6	1.4	191.4	55.8	0.3	24.0	3.2
Additions – donated	**51.1**	0.0	2.4	0.0	29.7	17.6	0.1	0.6	0.7
Impairments	**(17.3)**	0.0	(13.3)	0.0	(3.7)	(0.3)	0.0	0.0	0.0
Reclassifications	**(0.1)**	2.6	200.8	0.0	(239.5)	24.4	0.0	3.4	8.2
Other revaluations	**21.3**	10.2	(3.0)	(0.3)	2.5	11.2	0.1	0.0	0.6
Disposals	**(109.5)**	(21.3)	(44.0)	(0.6)	(0.3)	(35.1)	(0.8)	(6.0)	(1.4)
Gross cost or valuation at 31 March 2006	**6,404.6**	1,027.9	3,733.7	72.4	226.7	1,060.9	8.9	208.5	65.6
Depreciation at 1 April 2005	**777.9**	0.0	92.4	1.7	0.0	555.4	5.6	97.9	24.9
At start of period for new NHS foundation trusts	**106.4**	0.0	0.3	0.0	0.0	77.3	1.0	19.9	7.9
Provided during the year	**238.6**	0.0	133.9	2.7	0.0	77.1	0.6	19.2	5.1
Impairments	**0.6**	0.0	0.3	0.0	0.0	0.2	0.0	0.1	0.0
Reversal of impairments	**(0.1)**	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications	**0.1**	0.0	1.2	0.0	0.0	(1.3)	0.0	0.3	(0.1)
Other revaluation	**5.8**	0.0	(1.1)	(0.2)	0.0	6.6	0.1	0.0	0.4
Disposals	**(46.8)**	0.0	(5.9)	(0.1)	0.0	(32.7)	(0.8)	(5.9)	(1.4)
Depreciation at 31 March 2006	**1,082.5**	0.0	221.0	4.1	0.0	682.6	6.5	131.5	36.8
NBV – Purchased at start of period	**3,958.7**	822.6	2,596.5	60.9	171.0	237.6	2.0	52.1	16.0
NBV – Donated at start of period	**396.6**	42.4	232.7	0.5	60.2	57.1	0.2	2.5	1.0
Total NBV at start of period	**4,355.3**	**865.0**	**2,829.2**	**61.4**	**231.2**	**294.7**	**2.2**	**54.6**	**17.0**
NBV – Purchased at 31 March 2006	**4,881.9**	985.6	3,218.2	67.9	200.5	306.1	2.2	74.6	26.8
NBV – Donated at 31 March 2006	**440.2**	42.3	294.5	0.4	26.2	72.2	0.2	2.4	2.0
Total NBV at 31 March 2006	**5,322.1**	**1,027.9**	**3,512.7**	**68.3**	**226.7**	**378.3**	**2.4**	**77.0**	**28.8**

10.2 Analysis of tangible fixed assets

	2006 £ million	2005 £ million
Net book value		
– protected assets at 31 March 2006	3,867.7	3,759.3
– unprotected assets at 31 March 2006	1,454.4	596.0
Total at 31 March 2006	**5,322.1**	**4,355.3**

Net book value of assets held under finance leases and hire purchase contracts comprises £1,550,000 of land (2004-05: £nil), £304,000 of buildings excluding dwellings (2004-05: £12,766,000) and £nil of plant and machinery (2004-05: £7,000).

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £25,000 (2004-05: £300,000).

10.3 Net book value of land, buildings and dwellings

	2006 £ million	2005 £ million
Freehold	4,552.3	3,697.0
Long leasehold	53.9	58.2
Short leasehold	2.8	0.4
Total at 31 March	**4,609.0**	**3,755.6**

11. Stock and work-in-progress

	2006 £ million	Restated 2005 £ million
Raw materials and consumables	92.7	78.6
Finished goods	6.0	5.0
Total	**98.7**	**83.6**

Notes to the accounts continued

12. Debtors

	2006 £ million	Restated 2005 £ million
Debtors – amounts falling due within one year		
NHS debtors	292.3	225.6
Provision for irrecoverable debts	(52.4)	(30.0)
Prepayments and accrued income	60.1	46.7
Other debtors	111.5	122.0
Total	**411.5**	**364.3**
Debtors – amounts due after one year		
NHS debtors	8.4	10.0
Provision for irrecoverable debts	(0.8)	(0.5)
Prepayments and accrued income	2.3	2.3
Other debtors	60.7	12.8
Total	**70.6**	**24.6**
Total debtors	**482.1**	**388.9**

13. Current asset investments

	£ million
Cost or valuation at start of period	36.4
Additions	491.2
Disposals	(475.2)
Cost or valuation at 31 March 2006	**52.4**

14. Creditors

	2006 £ million	Restated 2005 £ million
Creditors – amounts falling due within one year		
Bank overdrafts	1.6	5.4
Loans	3.4	0.3
Interest payable	0.1	0
Payments received on account	6.0	5.5
NHS creditors	273.7	212.7
Obligations under finance lease and hire purchase contracts	0	0.5
Other creditors	256.4	176.2
Accruals and deferred income	213.3	173.4
Total	**754.5**	**574.0**
Creditors – amounts falling due after one year		
Loans	57.7	5.7
Obligations under finance lease and hire purchase contracts	0.7	6.8
NHS creditors	1.7	0.0
Other	13.2	9.3
Total	**73.3**	**21.8**

15. Prudential borrowing limit

	2006 £ million	2005 £ million
Total long-term borrowing limit set by Monitor	1,075.9	234.3
Working capital facility	447.2	156.5
Total prudential borrowing	**1,523.1**	**390.8**
Actual borrowing in the year – long-term	52.1	6.0
Actual borrowing in the year – working capital	3.9	3.0

16. Finance lease obligations

	2006 £ million	2005 £ million
Leases payable:		
Within one year	0.0	0.8
Between one and five years	0.1	3.1
After five years	0.7	8.1
Finance charges allocated to future periods	(0.1)	(4.7)
Net obligations	**0.7**	**7.3**

Notes to the accounts continued

17. Provisions for liabilities and charges

	£ million Total	£ million Pensions relating to former directors	£ million Pensions relating to other staff	£ million Other legal claims	£ million Other
At 1 April 2005	**81.4**	**0.9**	**26.5**	**5.5**	**48.5**
Prior period adjustment	**1.0**	0.0	1.0	0.0	0.0
Restatement	**0.0**	0.0	(1.1)	1.5	(0.4)
Restated balance at 1 April 2005	**82.4**	**0.9**	**26.4**	**7.0**	**48.1**
At start of period for new NHS foundation trusts	**10.0**	0.0	2.7	0.5	6.8
Change in the discount rate	**3.3**	0.1	2.2	0.3	0.7
Arising during the year	**49.3**	0.0	2.4	4.9	42.0
Utilised during the year	**(34.7)**	(0.1)	(2.5)	(2.1)	(30.0)
Reversed unused	**(7.4)**	(0.2)	(0.9)	(0.9)	(5.4)
Unwinding of discount	**0.9**	0.0	0.8	0.0	0.1
At 31 March 2006	**103.8**	**0.7**	**31.1**	**9.7**	**62.3**
Expected timing of cash flows					
Within one year	**64.5**	0.1	2.7	6.2	55.5
One to five years	**13.4**	0.3	10.0	1.4	1.7
Over five years	**25.9**	0.3	18.4	2.1	5.1
Total	**103.8**	**0.7**	**31.1**	**9.7**	**62.3**

£34.2 million of Other Provisions relates to Agenda for Change.

£292 million is included in the accounts of the NHS Litigation Authority for clinical negligence liabilities in NHS foundation trusts (2004-05: £215.9 million).

18. Movement in taxpayers' equity

	2006 £ million	Restated 2005 £ million
Taxpayers' equity at 1 April	4,312.3	3,989.6
Prior period adjustments	(3.0)	6.8
Taxpayers' equity at 1 April restated	4,309.3	3,996.4
Taxpayers' equity at the start of period for new NHS foundation trusts	846.7	-
Surplus/(deficit) for the financial year	144.4	64.7
Public dividend capital dividends	(167.6)	(97.2)
Fixed asset impairments	(11.3)	(5.6)
Surplus/(deficit) from revaluations of fixed and current asset investments	15.5	252.3
New public dividend capital received	154.0	137.0
Public dividend capital repaid in year	(19.2)	(53.9)
Public dividend capital repayable	0.1	(2.2)
Other movements in public dividend capital in year	2.1	1.6
Additions/(reductions) in donated asset reserve	26.5	16.2
Additions/(reductions) in other reserves	(5.0)	0
Taxpayers' equity at 31 March	**5,295.5**	**4,309.3**

19. Movement in public dividend capital

	2006 £ million	2005 £ million
Public dividend capital at 1 April	2,485.3	2,402.8
Public dividend capital at start of period for new NHS foundation trusts	582.4	-
New public dividend capital received	154.0	137.0
Public dividend capital repaid in year	(19.2)	(53.9)
Public dividend capital repayable	(0.1)	(2.2)
Other movements in public dividend capital in year	2.1	1.6
Public dividend capital at 31 March	**3,204.5**	**2,485.3**

Notes to the accounts continued

20. Movement in reserves

	Total £ million	Revaluation Reserve £ million	Donated asset reserve £ million	Government grant reserve £ million	Other reserves £ million	Income and expenditure reserve £ million
At 1 April	**1,827.0**	1,366.1	395.0	16.8	7.2	41.9
Prior period adjustments	**(3.0)**	7.3	0.0	(16.8)	0.0	6.5
At 1 April restated	**1,824.0**	**1,373.4**	**395.0**	**0.0**	**7.2**	**48.4**
At start of period for new NHS foundation trusts	**264.5**	256.0	24.2	0.0	0.0	(15.7)
Transfer from income and expenditure account	**(23.2)**	0.0	0.0	0.0	0.0	(23.2)
Fixed asset impairments	**(11.3)**	(6.6)	(4.7)	0.0	0.0	0.0
Surplus/(deficit) on revaluations of fixed asset and current asset investments	**15.5**	17.3	(1.8)	0.0	0.0	0.0
Transfer of realised profit/(loss) to the income and expenditure reserve	**(5.6)**	(20.3)	(1.3)	0.0	0.0	16.0
Receipt of donated/Government-granted assets	**50.6**	0.0	50.6	0.0	0.0	0.0
Transfer to the income and expenditure account for depreciation, impairment and disposal of donated assets	**(24.1)**	0.0	(24.1)	0.0	0.0	0.0
Other transfers between reserves	**0.0**	(20.6)	0.4	0.0	0.0	20.2
Movements on other reserves	**0.6**	0.0	0.0	0.0	0.6	0.0
At 31 March	**2,091.0**	**1,599.2**	**438.3**	**0.0**	**7.8**	**45.7**

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

	2006 £ million	Restated 2005 £ million
Total operating surplus/(deficit)	**128.9**	**58.0**
Depreciation and amortisation	240.9	154.8
Fixed asset impairments and reversals	6.5	7.9
Transfer from donated asset reserve	(24.1)	(17.0)
Transfer from revaluation reserve	0.0	(7.3)
Transfer from I&E reserve	0.0	(2.1)
Increase/(decrease) in stocks	(2.2)	(4.6)
(Increase)/decrease in debtors	(64.0)	33.6
Increase/(decrease) in creditors	100.4	58.5
Increase/(decrease) in provisions	9.3	15.1
Net cash inflow from operating activities before exceptional costs	395.7	296.9
Exceptional items	(2.9)	0
Net cash inflow from operating activities	392.8	296.9

21.2 Reconciliation of net cash flows to movement in net debt

	2006 £ million	2005 £ million
Net debt at start of period	**134.9**	**46.6**
Increase/(decrease) in cash in the period	144.3	78.0
Cash (inflow) from new debt	(57.1)	(6.0)
Cash outflow from debt repaid and finance lease capital payments	2.9	0.4
Cash inflow/(outflow) from (decrease)/increase in liquid resources	15.0	14.9
Change in net funds/(debt) resulting from cash flows	**105.1**	**87.3**
Non cash changes	7.9	1.0
Net funds/(debt) at start of period: new NHS foundation trusts	1.1	0
Net funds/(debt) at 31 March	**249.0**	**134.9**

21.3 Analysis of changes in net debt

	At 1 April 2005 £ million	Reclassifi-cations £ million	At start of period – new FTs £ million	Cash changes in year £ million	Non-cash changes in year £ million	At 31 March 2006 £ million
Commercial cash at bank and in hand	62.1	(7.0)	0	45.7	0.0	100.8
OPG cash at bank	55.1	7.0	3.8	92.4	0.0	158.3
Bank overdrafts	(5.4)	0.0	(2.4)	6.2	0.0	(1.6)
Debt due within one year	(0.3)	0.0	0	(3.1)	0.0	(3.4)
Debt due after one year	(5.7)	0.0	0	(51.1)	0.0	(56.8)
Finance leases	(7.3)	0.0	(0.3)	0	6.9	(0.7)
Current asset investments	36.4	0.0	0	15.0	1.0	52.4
Total	**134.9**	**0.0**	**1.1**	**105.1**	**7.9**	**249.0**

Notes to the accounts continued

22. Prior period adjustments

a) Two prior period adjustments have been made as a result of changes in accounting policy.

1. Government Grant Reserve

In 2004-05, NHS foundation trusts received additional capital from the Department of Health in recognition of having achieved three-star status in 2003-04 and a Government Grant Reserve was created to account for this receipt. The accounting treatment has been changed to bring the accounts more in line with UK GAAP and the balance in the Government Grant Reserve has been transferred to deferred income. Amounts equivalent to the depreciation charges arising from fixed assets purchased with this funding will now be transferred to the I&E account from the deferred income balance until the latter is completely written out of the accounts.

The effect of this is as follows:

	Year ended 31 March 2005	
	As stated £ million	As restated £ million
Accruals and deferred income (due less than 1 year)	163.9	173.4
Other creditors (due more than 1 year)	2.0	9.3
Government Grant Reserve	16.8	0
	182.7	182.7

2. Partially completed spells

It has been the practice of the NHS to account for each spell of patient care at its end. The implication of this is that all the income relating to spells that fall across the period end has been accounted for in the later period. In order to comply with FRS 5 and UITF 40, the accounting policy has been changed so that the income relating to such spells is divided pro rata between the periods in which it is earned. The accounts for the period ended 31 March 2005 have therefore been restated on the revised basis.

The effect of this is as follows:

	Year ended 31 March 2005	
	As stated £ million	As restated £ million
Income from activities	3,376.8	3,390.2
Income and expenditure reserve	41.9	51.3
NHS Debtors	212.8	235.6

b) Five of the NHS foundation trusts have made the following adjustments to their accounts that affect the consolidated account in respect of the prior period. They arise due to changes in accounting policies.

The effects of these are as follows:

	Year ended 31 March 2005	
	As stated £ million	**As restated £ million**
1) Increase in pension provision in Bradford Teaching Hospitals NHS Foundation Trust		
Expenditure: net increase in provisions	39.6	40.6
Provisions	81.4	82.4
2) Change in accounting treatment for recharges of costs to other NHS Bodies in Countess of Chester Hospital NHS Foundation Trust		
Income: from other NHS bodies	3,376.8	3,378.2
Expenditure: other operating expenses	36.5	37.9
3) Transfer of depreciation from Revaluation Reserve to I&E reserve in Countess of Chester Hospital NHS Foundation Trust and Sheffield Teaching Hospitals NHS Foundation Trust		
Income and expenditure reserve	41.9	34.6
Revaluation Reserve	1,366.1	1,373.4
4) Reversal of revaluation gain on PFI debtor in University College London Hospitals NHS Foundation Trust (UCLH)		
Expenditure: other operating expenses	37.9	45.9
Other debtors	21.8	12.8

c) Analysis of effect of prior period adjustments on the income and expenditure account

	£ million
Retained deficit for the year as stated	(36.9)
Partially completed spells	13.4
Income from activities: Countess of Chester	1.4
Operating costs: Countess of Chester	(1.4)
Early retirement provision: Bradford	(1.0)
PFI revaluation reversal: UCLH	(8.0)
Retained deficit for the year restated	**(32.5)**
Effect of prior period adjustment on income and expenditure account	4.4

d) Analysis of effect of prior period adjustments on the income and expenditure reserve

	£ million
Balance at 31 March 2005 as stated	41.9
Change in I&E deficit (as above)	4.4
Transfer from Revaluation Reserve: Countess of Chester and Sheffield	(7.3)
Partially completed spells (element taken to opening reserves)	9.4
Balance at 31 March 2005 as restated	**48.4**

Notes to the accounts continued

23. Capital commitments

NHS foundation trusts have entered into £117.9 million of capital commitments at 31 March 2006 (31 March 2005: £178.7 million).

24. Contingent liabilities

Potential net contingent liabilities totalling £45.9 million have not been accrued as the outcome of these cases is uncertain (2004-05: £19.9 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 11,729 cases of loss (2004-05: 4,445) with a total value of £4.3 million (2004-05: £1.5 million) and 1,090 cases (2004-05: 788) of special payments with a total value of £3.7 million (2004-05: £1.0 million). There were 3 individual losses or special payments made in excess of £100,000 (2004-05: none) in the accounts of Sheffield Teaching Hospitals NHS Foundation Trust and South Tyneside 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. 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 trust boards. Details of all the NHS foundation trust related party transactions are shown in the individual NHS foundation trust accounts.

27. Private finance transactions

For PFI schemes, deemed by individual foundation trusts to be off-balance sheet, the revenue charges incurred in 2005-06, the future annual revenue charges anticipated and the estimated capital value excluded from the individual foundation trusts' balance sheets are:

	2006 £ million	2005 £ million
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet	45.4	5.4
The NHS foundation trusts are committed to make the following payments during the next year		
PFI scheme which expires:		
2nd to 5th years (inclusive)	1.3	1.1
6th to 10th years (inclusive)	9.5	5.3
11 years and beyond	63.8	3.2
Estimated capital value of PFI schemes	844.4	

28. Post balance sheet events

As at 31 March 2006 there were 32 NHS foundation trusts. A further 20 NHS trusts have become NHS foundation trusts since the year end. With effect from 1 May 2006, three NHS trusts became NHS foundation trusts. With effect from 1 June 2006, five NHS trust became NHS foundation trusts. With effect from 1 August 2006, eight NHS trusts became NHS foundation trusts. With effect from 1 October 2006, 1 NHS trust became an NHS foundation trust. With effect from 1 November 2006, three NHS trusts became NHS foundation trusts.

University College London Hospitals NHS Foundation Trust (UCLH) sold the Middlesex Hospital in October 2006 for £175 million. The carrying value of the Middlesex at existing use value was £88 million at 31 March 2006.

29. Financial instruments

The NHS foundation trust summarised account includes the accounts of 32 underlying NHS foundation trusts. It is within the underlying accounts of these 32 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 its underlying activities. Because of the largely non-trading nature of NHS foundation trusts' activities and the way in which they are financed, the 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 2006 was £682,000 (2004-05: £17,419). This has been excluded from the balance sheet as it is not an asset of the NHS foundation trusts but is held on trust on behalf of patients.

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