Monitor

Annual report and accounts 2012/13

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The vision, mission and strategy that guided our role as the foundation trust regulator in 2012/13

Our vision – our aspiration for the future.

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

Our mission – Monitor's role.

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

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

1. Operate a **proportionate, risk-based regulatory regime**;

2. Operate a **rigorous assessment process**;

3. Promote the **development of well-led NHS foundation trusts**;

4. Work with partners to contribute to and influence the **development of an affordable, devolved health care system**; and

5. Continue to improve as a **high performing organisation**.

Our new powers and role

The Health and Social Care Act 2012 made significant changes to our role by broadening our remit to become the sector regulator for health services in England. Our core duty is to protect and promote the interests of patients. To achieve this we have a range of powers to help commissioners and providers of health services to deliver the best possible care for patients: care which is clinically effective, safe, and results in a positive user experience.

The first of our new powers, to ensure competition operates fairly in the interests of patients and prevent anti-competitive behaviour in the NHS, came into effect on 1 November 2012. We assumed most of our other powers on 1 April 2013.

We use our powers to allow us to establish and enforce rules, apply incentives and make information available to ensure:

- public sector providers are well led, so they can deliver good quality care on a sustainable basis;
- essential NHS services are maintained if any provider gets into serious difficulty;
- prices for NHS services reward high-quality, efficient providers and incentivise them to deliver care in ways that best meet patients' needs; and
- procurement, choice and competition work in the best interests of patients.

We are also responsible for enabling the provision of integrated care tailored to the needs of the individual patient.

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Chair's foreword

Our 2012/13 annual report and accounts covers a period of significant change for us and the NHS. Throughout the year, we carried out our existing role to ensure that foundation trusts offer good quality and sustainable health care. At the same time, we were preparing for our new role from 1 April 2013 as sector regulator for health care services, with new responsibilities set out in the Health and Social Care Act 2012.

For its part, the NHS as a whole has been preparing for the wider changes brought in by the Act, while striving to meet the needs of patients in a difficult financial climate. This effort has taken place against the backdrop of a broader public debate that has re-emphasised the need to put the interests of patients demonstrably at the centre of health care.

The long-awaited report of the Public Inquiry into the Mid Staffordshire NHS Foundation Trust, the 'Francis Inquiry', was published in February. This has significant implications for Monitor and the sector as a whole. In practice, we had implemented the majority of the relevant proposals coming from the inquiry ahead of the report's publication.

However, we have committed to working with our key partners to play our part in making certain that in future we take a more patient-centric approach, listening and engaging more, and enabling patients to make more choices about their care. We are in the process of recruiting a new Medical Adviser and Executive Director of Patient and Clinical Engagement with responsibility for taking this priority forward.

In our regulatory work with foundation trusts over the past year, we found seven foundation trusts in significant breach of their terms of authorisation either on quality governance or financial grounds, or both. However five trusts returned to compliance. This brought the total number of trusts in significant breach to 19 at the year end. At two trusts, Sherwood Forest Hospitals NHS Foundation Trust and Bolton NHS Foundation Trust, issues were so significant that we used our formal powers to require them to appoint experienced interim chairs.

We also appointed Contingency Planning Teams (CPTs) at foundation trusts for the first time. This is the first step in our new procedure for ensuring continuity of services for local patients when a foundation trust appears likely to fail. In September 2012 we appointed the first Contingency Planning Team to look at services provided by Mid Staffordshire NHS Foundation Trust. The CPT recommended that we send in expert Trust Special Administrators to find a sustainable solution for patient services, which we did in April 2013. During 2012 we also appointed a CPT as a result of the financial issues at Peterborough and Stamford Hospitals NHS Foundation Trust.

In our new role as sector regulator, our primary duty is to protect and promote the interests of patients. In simple terms, as sector regulator we put the right rules, incentives and information in place to empower commissioners, providers and patients to achieve the best possible care. In effect, this means we help those who deliver care on the front line to do their job more effectively, putting the delivery of quality services for patients first.

We had an early opportunity to demonstrate this in practice in our choice and competition role. We advised the Office of Fair Trading in December 2012 on a proposed merger of Bournemouth and Poole hospitals by evaluating the patient benefits anticipated to be specific to the merger. In future we will continue to promote the interests of patients by acting against anti-competitive behaviour and enforcing the rules set out in the Government's regulations of procurement, choice and competition.

As a regulator, we have always sought to listen to our stakeholders and we made a particularly determined effort to engage and consult extensively on the terms of the new provider licence that we granted to foundation trusts from 1 April 2013. Other providers of NHS-funded services will need to hold a licence from 2014 and it will be one of our most powerful tools.

A landmark was publication in March 2013 of our review *A Fair Playing Field for the Benefit of NHS Patients.* Our first major report to be published in our new role as sector regulator, the review was intended to uncover whether there are unfair aspects of the health care playing field that hinder the best quality providers in delivering services to patients. In the review we sought to exemplify our overall approach to regulation by being rigorously evidence-based throughout our analyses, and consultative throughout our processes.

During the course of the year I took up the role of chief executive, which I had held on an interim basis, and appointment of a new chair by the Secretary of State for Health is now underway.

We are growing rapidly and carried out significant organisational changes last year in readiness for becoming the sector regulator for health care services in England. Among our tasks was building up capability in wholly new areas of policy responsibility, such as pricing and competition. The Cooperation and Competition Panel's staff have joined us and we continue to recruit people in other fields with the appropriate skills, experience and professionalism. The practical implementation of the licence and designing the new failure regime also required a large effort – as did the extensive stakeholder engagement we judged essential as we prepared for our new powers.

From the outset we were determined that there should be no fall in our standards as we embarked on the major task of building up the organisation in preparation for our new powers; we also needed to achieve the transition while exercising our existing functions in parallel. To do this has required intense hard work and it is a tribute to our staff that all this change was accomplished smoothly with no significant problems. Of course, there is still more to do as we continue to grow and start to carry out our new responsibilities. We will need to be realistic about what we can achieve and the time it will take to reach our full capacity as sector regulator. This means we will need to prioritise our work carefully and be clear about what we can deliver.

These are challenging times for the NHS with a renewed emphasis on quality. In the coming year, one priority for Monitor will be to continue to work even more closely with the Care Quality Commission (CQC), and in due course its new Chief Inspector of Hospitals, to ensure we have a coherent regulatory regime that functions effectively. An equal priority will be to act on the findings of the Francis Inquiry.

Among the tasks will be to identify problems at trusts and take action quickly, improve our understanding of what makes NHS providers clinically sustainable and strengthen governance and local accountability in foundation trusts. The Care Quality Commission's publication in June 2013 of the independent report into its oversight of University Hospitals of Morecambe Bay NHS Trust underlined that confidence in the regulatory regime is vital.

We remain directly accountable to Parliament. We had our annual accountability session with the Health Select Committee in October 2012 where we explained our new role and answered questions on how we would fulfil our remit. We also gave evidence twice during the year to the Public Accounts Committee, firstly on the financial sustainability of the NHS and, secondly, on the financial challenges faced by Peterborough and Stamford Hospitals NHS Foundation Trust.

For the year ahead, we look forward to helping the health sector adapt so that it can continue to deliver high quality care to NHS patients on a sustainable basis. The best interests of patients will guide everything that we do.

Dr David Bennett
Chair and Chief Executive
2 July 2013

Focusing on the quality and continuity of services for patients

A focus on patients' interests has been uppermost throughout the year. Changes to the statutory basis of our role in the course of 2012/13 have underlined that this is our core duty.

We concern ourselves with the quality of services across all three recognised areas: clinical effectiveness, patient safety, and the overall experience for users. Although the monitoring of day-to-day quality is the responsibility of the Care Quality Commission (CQC), with whom we work very closely, it is our job to ensure that quality services can be delivered in a sustainable way, which means that hospitals and other NHS-funded organisations must be well led with effective corporate and quality governance and strong finances. Where there is a problem with these, we intervene on behalf of patients to get immediate problems fixed and ensure sustainability issues are addressed.

Acting in our existing role as foundation trust regulator
We assess NHS trusts for foundation trust status to make sure they can provide good quality services for patients on a sustainable basis by assessing:

- whether they meet the required quality performance threshold. We work closely with the CQC during this process and will not grant foundation status without assurance from the CQC;
- governance at the applicant trust to deliver the strategy, and effective arrangements to manage quality and financial performance; and
- financial viability over a five-year period to test the future sustainability of services to patients.

As foundation trust regulator in 2012/13, we took action in a variety of ways to help ensure that trusts could continue to deliver high-quality care on a sustainable basis. Our most direct form of action was to find trusts in significant breach of their terms of authorisation and ask their boards to develop the necessary plans to resolve the problems we identified. In 2012/13 we found seven foundation trusts in significant breach of their terms of authorisation on governance or financial grounds, or both. In addition, we used our formal powers of intervention at two foundation trusts where the issues were particularly serious.

Our work on quality governance lies at the heart of ensuring that foundation trusts deliver high-quality care on a sustainable basis. Quality governance ensures that trust boards have the right data, systems and processes to maintain high quality of care and understand how well standards are being met. Setting standards for caring for patients is of little use unless those standards are routinely upheld and there is a culture that supports ethics and candour.

During 2012, we worked with a variety of NHS trusts and other organisations to produce our new guidance entitled *Quality governance: How does a board know that its organisation is working effectively to improve patient care?* Aimed at boards of NHS provider organisations, this document was published in April 2013.

The creation of an efficient and sustainable health care sector in England able to deliver and maintain high-quality patient care requires effective medium to long-term planning by providers. One of our long-standing concerns has been the degree to which foundation trusts plan long-term. In March 2013 we began a project to review the quality of long-term strategic planning. On the basis of the evidence we find, we will consider providing guidance to help trust leaders improve their planning.

Creating a new organisational structure
During 2012 we designed a new organisational structure to enable us to carry out new responsibilities as the sector regulator for health care services.

As part of this we created a new post for a Medical Adviser and Executive Director of Patient and Clinical Engagement. This post, with a seat on the executive committee, will determine how the public and patients can be involved in the policy development and decision-making of Monitor. The new role will also provide clinical advice to the Board on all aspects of quality governance and risk in trusts as well as on reconfigurations, interventions and transactions. Deepening our links with the medical community will be another key part of the role.

Developing our sector regulator role
As we developed our new policies, processes and tools for our role as sector regulator, we designed them to ensure we would always put patients first. For example:

- We included conditions on patient choice and making information available to patients in our new licence for providers of NHS-funded services;
- We set out our proposals for how we will monitor providers' financial performance carefully and regularly so that we can flag issues that might lead them to fail and not be able to provide services for patients in future;
- We designed our continuity of services regime to ensure that if a provider does get into serious financial difficulty we can step in to support commissioners in ensuring that the services patients need can continue to be provided in the future. As part of this we developed guidance for commissioners on how to identify those services; and
- We started to develop our thinking on how we could approach our statutory duty to enable integrated care. This is one of the ways we can assist in improving services for patients. Pricing and incentives can help ensure that the patient's voice and choices carry weight.

Starting to use our new powers for the benefit of patients
We started to take on elements of our new role as sector regulator for health care during 2012/13 and made sure that our core duty to protect and promote the interests of patients was central to our actions and decisions.

One of the first of the new powers we took on was to advise the Office of Fair Trading (OFT) in the investigation of mergers involving NHS foundation trusts. We are required to base our advice on the benefits to patients arising from proposed mergers.

We advised the OFT for the first time in December 2012 on the merger of Poole Hospital NHS Foundation Trust and The Royal Bournemouth and Christchurch

Hospitals NHS Foundation Trust. We concluded that the merger would be likely to deliver benefits to patients in the form of higher quality maternity and cardiology services for some patients. The OFT referred the merger to the Competition Commission as it was not satisfied that the identified benefits outweighed the substantial lessening of competition that was expected to result from the merger and the case is ongoing.

In February 2013, we also advised the OFT on the acquisition by University College London Hospitals NHS Foundation Trust of Royal Free London NHS Foundation Trust's neurosurgery services. We concluded that the transaction was unlikely to give rise to any relevant customer benefits as defined in the Enterprise Act but that there may be some other advantages for patients and taxpayers. The OFT concluded that there was no realistic prospect that the merger would substantially lessen competition and agreed that it could go ahead.

From 1 April 2013, the rules on cooperation and competition in the NHS, the Principles and Rules for Cooperation and Competition, were put on a full statutory footing. This was done, firstly, through the conditions of the provider licence issued by us and, secondly, through secondary legislation imposing requirements on commissioners through the new Procurement, Patient Choice and Competition Regulations (the so-called Section 75 rules). The Health and Social Care Act 2012 also gives Monitor concurrent functions with the OFT to apply provisions of the Competition Act 1998 and the Treaty on the Functioning of the European Union that prohibit anti-competitive behaviour to the provision of health care services in England. These concurrent functions are investigative and enforcement powers that Monitor shares with the OFT.

Together these give us a number of powers to protect the interests of patients through protecting choice, curbing anti-competitive behaviour and supporting commissioners in achieving good procurement.

In carrying out a thorough review of the playing field for health care providers, as requested by the Secretary of State, we were concerned with unfairness or distortions that could have a negative impact on patients. This report, entitled *A Fair Playing Field for the Benefit of NHS Patients* and published in March 2013, was our first major report in our new role as sector regulator for health care services.

The review identified three categories of unfairness or distortions to the playing field that prevent providers with the best services from accessing patients. First, barriers exist to participation which means that prospective providers are excluded from offering their services to NHS patients for reasons other than quality or efficiency. Second, there are externally imposed costs that do not fall on all providers. Third, constraints exist on the ability of providers to adapt their services to the changing needs of patients and commissioners.

We made a total of thirty recommendations which are being taken forward by a high level group created by the Secretary of State and chaired by Monitor. Some of the recommendations, such as a call for evidence on the commissioning and provision of primary care and associated services, have been quickly implemented. Other recommendations, such as the proposed changes to VAT and the cost of capital, require the completion of further work and are therefore being implemented within a longer time frame.

We also started to use our powers to help commissioners ensure continuity of the services that patients need in a particular location when a provider gets into serious difficulty. We sent teams of experts to look at the options for how services could continue to be provided in a sustainable way for patients at Mid Staffordshire and Peterborough and Stamford foundation trusts.

Working with partners

The Health and Social Care Act 2012 sets out the new statutory responsibilities of Monitor and our partner organisations: the Care Quality Commission (CQC), National Institute for Health and Care Excellence (NICE), NHS Trust Development Authority (NHS TDA) and the NHS Commissioning Board (also known as NHS England).

All the new organisations share a common purpose for the NHS to improve patient outcomes and deliver high-quality care on a sustainable basis. We and our partners are committed to working together to make sure people get the best possible care and service from the NHS. We will all put patients first. We will work hard to give people the information they need to make choices about their own care if they want to, and to help doctors and nurses to deliver the best results for them.

To ensure we are aligned with our partners, we have developed a series of high-level agreements that set out our respective roles and functions, and describe the areas where we will work together.

Care Quality Commission
Building on our existing close working relationship, we have updated our memorandum of understanding (MoU) with the CQC. This takes into consideration the changes which arose from the Act and sets out our respective roles, the principles we will adhere to and our agreed governance framework on joint areas of work. We welcome recommendations from the recent Francis Inquiry that will require applicant trusts to undergo closer inspection by the CQC before we authorise them.

NHS Trust Development Authority
We have already begun working closely with the NHS TDA, which on 1 April 2013 took over responsibility from the Department of Health for developing NHS trusts to the level of foundation status before referring them to us. We are jointly working on streamlining the end-to-end process for assessing trusts to ensure that it reflects the recommendations of the Francis Inquiry and does not place undue burdens on trusts.

NHS England
We have put in place new governance arrangements to ensure joint working with NHS England and have worked together throughout the year to understand how current pricing and reimbursement arrangements shape NHS care and how they might be developed in future. In November 2012 we published *Costing Patient Care*, which sets out our proposed approach to improving the quality of cost data on which prices are based. We have also worked closely on our joint discussion document. *How can the NHS payment system do more for patients* and Monitor's guidance for commissioners on the continuity of services.

Working with emerging organisations
Monitor has also started to form strong links with new organisations within the NHS including the consumer champion, Healthwatch, and health and wellbeing boards. For example, our staff working on the *Fair Playing Field Review* met Healthwatch prior to publication.

Mid Staffordshire NHS Foundation Trust and the Francis Inquiry

The findings of the Francis Inquiry into the failings of the regulatory and supervisory organisations and processes that contributed to problems at Mid Staffordshire NHS Foundation Trust have changed the broader debate about the NHS with a renewed emphasis on quality.

Background
The trust was authorised by us as a foundation trust in February 2008. In the same year, it was subjected to a review by the then Healthcare Commission into reported high levels of patient mortality and poor standards of care. This review identified serious concerns about the management of patients admitted with emergencies and concluded that the care of patients was unacceptable.

We intervened at the trust in 2009 to make sure that strategic and operational leadership was in place to stabilise it, enabling it to address the recommendations of the Healthcare Commission's report and make sure it could sustain progress.

After 2009, the trust made considerable and sustained improvements to the quality and safety of its services, which we ensured were its first priority.

The trust invested significantly in additional staff at a time when NHS organisations were facing increasing financial challenges. Clinical performance at the trust improved as a result of these investments. However, the trust was unable to deliver effective Cost Improvement Programmes (CIPs) and the investments contributed to a chronic deficit at the trust. It therefore continued to require financial support to continue operating.

Action taken by Monitor in 2012/13
When it became apparent that the trust could not find a way to sustain both financial balance and good quality clinical services, we appointed a Contingency Planning Team (CPT) to the trust in September 2012 to investigate how services could be delivered sustainably for the patients of Stafford and Cannock.

The CPT worked closely with local commissioners and clinicians, building on work already undertaken through the Strategic Health Authority to look into options for the provision of health care services in Staffordshire.

It reported to us in January 2013 its conclusion that the trust in its current form was neither financially nor clinically sustainable in the long term. In March, the CPT put forward options for ensuring that local people receive sustainable high-quality services.

The CPT also advised us that, in its view, neither the trust nor its commissioners would be able to effect the changes required to deliver sustainable services in the future. It advised us to use our powers in such a case to appoint Trust Special Administrators (TSAs). We appointed clinician Dr Hugo Mascie-Taylor and Alan Bloom of Ernst & Young as TSAs in April 2013. They are working with commissioners and other local health care organisations to produce a plan for the

reorganisation and sustainable delivery of health services. The plan will be subject to public consultation.

The Francis Inquiry

On 9 June 2010 the then Secretary of State for Health, Andrew Lansley MP, announced a full public inquiry into the role of the commissioning, supervisory and regulatory bodies in relation to Mid Staffordshire NHS Foundation Trust from January 2005 to March 2009. The inquiry was chaired by Robert Francis QC. His recommendations were made in the final report of the Mid Staffordshire NHS Foundation Trust Public Inquiry (the Francis Inquiry), in February 2013.

The inquiry had shown failures in the regulatory and supervisory system during the period and that patients suffered appalling care. We responded with a public statement profoundly regretting the events that took place and accepting without hesitation our share of responsibility for failures in regulation during the period in question. We have learnt from the mistakes we made and have already made significant changes to the way we work as a result of what happened at Mid Staffordshire.

We had already implemented a number of the Francis Inquiry's recommendations and welcomed many of the proposals for further change. We are committed to working closely with partners to make sure that patients come first in all our future regulatory work.

In March the Department of Health published the Government's response to the inquiry's recommendations, including the creation of a new Chief Inspector of Hospitals within the CQC. Along with our major partners we signed up to the Common Purpose statement included in this response.

We have also started work on developing our own more detailed programme of work to address the recommendations and translate them into practical action. Our Board has agreed to take forward four main work streams to do this and these are now embedded in our corporate strategy:

- continuously challenging ourselves to ensure that our own culture and behaviours put patients at the centre of our work;
- working even more closely with the CQC and other stakeholders so that we identify problems early and act quickly together to put them right;
- working with the CQC and the NHS TDA to improve our understanding of what makes NHS providers clinically sustainable so that good quality services can be provided for all patients in the future; and
- strengthening governance and leadership in foundation trusts.

Our role with foundation trusts

As a regulator, we work independently to ensure patients receive the good-quality care they have a right to expect. One way we do this is by assessing applicants for NHS foundation trust status to ensure they are able to provide quality services for patients on a sustainable basis. We then monitor the performance of foundation trusts and promote improvement for patients through effective regulation. Our focus is on ensuring foundation trusts remain well led from both a quality and financial perspective. We work closely with our partners, in particular the CQC, to put patients first.

Assessment in 2012/13
During the course of 2012/13, 12 NHS trusts were referred to us for assessment. We completed assessments of ten NHS trusts, of which we authorised two and deferred applications from five. Three trusts requested a postponement.

By the end of March 2013, of the 246 NHS trusts in total in England, 145 had achieved NHS foundation trust status. That leaves 101 still to be authorised, of which 85 have yet to be referred to us for assessment.

Assessment summary 2009/13				
	2009/10	**2010/11**	**2011/12**	**2012/13**
Referred	7	11	5	12
Assessed	20	14	10	10
Authorised	14	7	7	2
Deferred	1	1	1	5
Postponed	4	6	1	3
Withdrew	1	0	3	0
Rejected	0	0	0	0
Total FTs	129	136	143	145

This table shows a rise in the number of referrals compared to last year. However, the rate was lower than indicated by the tripartite agreements signed by applicant trusts, strategic health authorities and the Department of Health in 2011. The lower than expected rate of referrals in part reflects challenges facing the sector as a whole. Trusts continue to face challenging efficiency requirements reflecting limited growth in funding, rising demand and inflationary increases in their cost base. We take these factors into account in the financial assumptions we use. Aspirant trusts need to demonstrate that they can meet these pressures whilst delivering quality services for patients on a sustainable basis even in the current financial climate.

We have also seen deterioration in the authorisation rate this year with eight aspirant trusts being deferred or postponed. The main cause is quality governance: applicants have needed more time to demonstrate that they have adequate quality governance arrangements in place.

During the year we have also continued to implement the recommendations from the review of our assessment of University Hospitals of Morecambe Bay NHS Foundation Trust and our own review of the full assessment process. In particular

we amended our process to make sure that we receive confirmation that all the important facts about a trust have been shared with us. Board members of NHS trusts seeking foundation trust status are now asked to make a declaration confirming that they have provided all relevant information to us in the course of the assessment process. In addition, our revised guidance for applicant trusts enables us to require them to commission an external review of their service performance or governance arrangements where they have not presented enough evidence to meet the authorisation criteria. We have agreed with the CQC that, pending the implementation of its new inspection regime, where we identify potential quality issues at trusts, we will jointly agree how best those issues should be investigated, including jointly commissioning expert reviews where necessary.

Looking ahead

We have already begun working closely with the NHS TDA, which on 1 April 2013 took over responsibility from the Department of Health for developing NHS trusts to the level of foundation status before referring them to us. We are jointly working on streamlining the end-to-end process for assessing trusts to ensure that it reflects the recommendations of the Francis Inquiry and does not place undue burdens on them. In addition we will work closely with the NHS TDA to ensure we are aligned on expectations around the timing of applicant referrals; this is to ensure that the assessment process will start within a reasonable timeframe of referral. We have also increased our staffing levels in assessment insofar as we are able within our available budget to ensure we have sufficient capacity to meet the expected increase in referrals and the expected increase in transactions involving NHS foundation trusts.

In terms of meeting the efficiency challenge going forward we expect that the trusts that are innovative and can find new ways of working and new patterns of service delivery will be best able to adapt to this challenging environment. During 2013/14 we will review our assessment process to ensure that our regulatory approach does not discourage the development of innovative service models. These include, for example, models that integrate social care with primary and secondary care.

Finally we are working with stakeholders to ensure our assessment process can accommodate referrals of high secure health care organisations.

Significant transactions

We assessed two significant transactions this year, a merger between York Teaching Hospital NHS Foundation Trust and Scarborough and North East Yorkshire Healthcare NHS Trust, and a merger between South Western Ambulance Service NHS Foundation Trust and Great Western Ambulance Service NHS Trust. These are signs of service reshaping and we expect to see further such transactions in 2013/14.

Regulating foundation trusts

We monitor the performance of foundation trusts and help promote improvement for patients through effective regulation. Up until 1 April 2013, where either quality or financial standards were not being met we had powers to find foundation trusts in significant breach of their terms of authorisation. We could then, if necessary, require them to undertake a specified course of action. In future we will achieve this through the provider licence, still working closely with the CQC on quality aspects.

In 2012/13, we found seven foundation trusts in significant breach of their terms of authorisation and we found five trusts formerly in significant breach to have returned to compliance. We continued to monitor the trusts in significant breach to the end of March 2013, when they numbered 19 in total. These trusts then came under the new regulatory framework provided by the conditions of the licence.

The five trusts which returned to compliance were:

- Cambridgeshire and Peterborough NHS Foundation Trust, March 2013;
- Wirral University Teaching Hospital NHS Foundation Trust, December 2012;
- Gloucestershire Hospitals NHS Foundation Trust, December 2012;
- James Paget University Hospitals NHS Foundation Trust, December 2012; and
- Blackpool Teaching Hospitals NHS Foundation Trust, 24 May 2012.

The seven NHS foundation trusts we found to be in significant breach were:

- The Rotherham NHS Foundation Trust, February 2013;
- Stockport NHS Foundation Trust, January 2013;
- Cambridge University Hospitals NHS Foundation Trust, November 2012;
- Kettering General Hospital NHS Foundation Trust, October 2012;
- Sherwood Forest Hospitals NHS Foundation Trust, September 2012;
- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust, May 2012; and
- Bolton NHS Foundation Trust, April 2012.

Of the seven, one foundation trust was found in significant breach for poor governance: Stockport; one was found in significant breach for finance: the Royal National Hospital for Rheumatic Diseases; and five trusts were found in significant breach for both governance and finance: Bolton, Cambridge, Kettering, Rotherham and Sherwood.

At two of these trusts, Sherwood Forest Hospitals NHS Foundation Trust and Bolton NHS Foundation Trust, issues were so significant that we formally intervened. At Bolton, for example, we appointed an interim chair to drive recovery of the trust and required the trust to appoint a turnaround director, to sit at board level, to develop and deliver an effective recovery plan.

As a consequence of the Act of 2012, we will continue to regulate foundation trusts and intervene where necessary, although the basis of our regulation has changed. Instead of ensuring foundation trusts comply with their terms of authorisation, we will now ensure they comply with the conditions of the new provider licence.

We reviewed all the outstanding issues at the 19 foundation trusts which remained in significant breach of their terms of authorisation to ensure continuity of our regulatory scrutiny as we moved into the new regime. We formally notified these trusts that we intended to place them in breach of their licence.

We confirmed the enforcement action we would take over known or potential breaches of the new provider licence with 18 of the 19 NHS foundation trusts. Two of them, Kettering and Rotherham, have had additional licence conditions imposed

to ensure the trusts are being run in a way that delivers the changes needed. Mid Staffordshire NHS Foundation Trust, the 19th trust in significant breach of its terms of authorisation under the old regime, is now under special administration and subject to separate regulatory scrutiny.

Using our new continuity of services powers
We used our new powers to ensure continuity of services for patients for the first time at Mid Staffordshire NHS Foundation Trust.

We also appointed a Contingency Planning Team (CPT) at Peterborough and Stamford Hospitals NHS Foundation Trust, which has been in significant breach of its terms of authorisation on financial grounds since October 2011.

We have been working with the trust, the Department of Health and local NHS commissioners for some time on initiatives to bring down the trust's underlying deficit of about £45 million while maintaining the delivery of quality services for patients. The problems are partly due to the unaffordable Private Finance Initiative (PFI) scheme on which the trust embarked in 2007.

The CPT appointed by us will build on the work already undertaken to diagnose and address the underlying financial issues at the trust and will consult widely with the local health economy to find a sustainable solution for providing quality services to the people in the Peterborough area while minimising the need for further funding from the taxpayer. This initiative has been agreed with NHS partners nationally and locally.

Development programmes and conferences
We staged a range of events to help develop the capability of key groups of individuals within the health care sector. We continued to run development programmes for foundation trust and aspirant trust leaders in partnership with Cass Business School. Eleven chairs, 31 non-executive directors and 19 finance directors attended these role-specific programmes during the year and nine finance directors also attended the Finance Directors' Alumni programme for those who had undertaken the original Strategic Financial Leadership programme.

In November 2012, in partnership with the King's Fund, we hosted a one-day conference for NHS foundation trust non-executive directors. Nearly 250 people attended the conference.

Meanwhile we, in partnership with the Healthcare Financial Management Association, held a national conference and a series of five webinars on cost improvement programmes (CIPs). The conference provided a high level forum for learning, discussion and debate between about 200 board members on the board's role in delivering safe and sustainable cost improvement programmes.

In May we held, in partnership with management consultants BCG, an effective quality governance workshop to share first-hand experiences and perspectives, from both the NHS and private sector, on the importance of ensuring robust quality governance systems are in place. We also held a conference with the Foundation Trust Network (FTN) in September, focusing on robust quality governance. This looked at lessons learned from using the Quality Governance Framework.

Preparing the organisation for our new role

A major task for us during the year was equipping the organisation for our new role as sector regulator for the NHS in England from April 2013. Preparing for our new responsibilities meant ensuring that we had the required capability in the relevant policy and operational areas including taking on staff with new fields of expertise such as pricing. We also had to put in place the organisational structures and infrastructure to enable rapid growth of the organisation. All of this had to be done while carrying out our existing functions and maintaining appropriately high standards.

Building an organisation fit for purpose
The design of a new organisational structure to enable us to handle our expanded responsibilities was part of the work carried out by our transition programme. As a first step we expanded our Board membership to bring in non-executives with new areas of expertise. Heather Lawrence was appointed as a non-executive director in July 2012. Keith Palmer joined as a shadow non-executive in January 2012 prior to taking up his full role as a non-executive in April 2012.

We then completed our organisational design programme in August 2012, creating a new structure based on our four regulatory functions: assessment; provider regulation; cooperation and competition; and sector development, supported by our regulatory advice and corporate support functions.

Our Board appointed Dr David Bennett as permanent chief executive on 1 November 2012, the date when the first of our main new powers under the Act of 2012 came into effect. Dr Bennett had been interim chief executive since March 2010.

Dr Bennett is also Monitor's chair, a post he has held since March 2011. He will remain in this role pending a new appointment by the Secretary of State.

Our provider regulation function moved to a regional structure in November 2012 mirroring the regional structures of CQC, the previous strategic health authorities and NHS England. This should enable better partnership at a strategic level across all the major national health care organisations and also development of regulatory teams' knowledge within geographical regions. As part of this we appointed four regional directors (South, Midlands and East, North and London) who have responsibility for coordinating Monitor's regulatory understanding and activities within the regions ensuring our approach is appropriate to the issues of a specific area.

We have also embarked on a major recruitment programme to build capacity where we have new functions. Despite the challenges of recruiting a large number of highly qualified professionals, we have been determined that we would in no way compromise our standards in doing so. Hiring interims while we find permanent staff of the right calibre has been a necessary way to achieve this.

Number of Monitor staff in post	
March 2011	137
March 2012	165
March 2013	298
March 2014 (projected)	418

Over a period of six months, we have recruited to most of the critical posts required by 1 April 2013 and half of the overall headcount needed by next year.

Vision, mission, culture and values
As the Act of 2012 came into effect we needed to realign our vision, mission and values of the organisation to reflect the renewed focus on protecting and promoting the interests of patients. Staff were engaged in the process of determining the new organisational values. These are:

- *Ambitious for patients*: we will be ambitious for patients in all that we do. We will strive to make the greatest possible impact for users of the health service. We will stretch and challenge ourselves and others to deliver the best for patients.
- *Evidence-based:* we will always act on the basis of evidence, so patients and stakeholders can have confidence in our decisions. Where little robust data exists we will do what we can to find new evidence, for example by undertaking or sponsoring original research.
- *Working together:* we will work closely with our partners and, in particular, get input from clinicians and the people who use health services in developing our approach. We will actively seek out expert advice and input from our stakeholders and colleagues, to ensure we learn and improve.
- *Professional:* we will be professional in our approach, focused on delivering high quality regulation. We will do what we say we will do, and ensure that our work is efficient and rigorous. We will treat each other, and everyone we work with, with respect and courtesy.
- *Open:* we will be transparent about the basis for our decisions. We are always willing as individuals and as an organisation to receive feedback so that we can learn and continually improve.

Equality and diversity
We continue to use all the talent we can find to deliver our organisational goals, demonstrating a strong commitment to building a diverse, high-performing workforce

and ensuring all employees are treated with dignity and respect. This year we have improved the quality of the workforce diversity monitoring data that we collect about both prospective and current employees which is enabling us to identify and address any issues. We have also enhanced our induction programme to ensure all new joiners are invited to a training session, within eight weeks of joining, that will clearly set out Monitor's commitment and expectations regarding equality and diversity.

Monitor's staff profile					
	Female	Male	Average Age	Staff turnover	Black and ethnic minority
2012/13	56%	44%	36.2 years	12%	18%
2011/12	55%	45%	36.6 years	21%	20.3%
2010/11	61%	39%	36.6 years	11.3%	16%
2009/10	57%	43%	36 years	12.4%	15%

Developing our staff
We continue to focus on the development of existing staff and the comprehensive induction of new staff to the organisation. Sessions for existing staff on our new regulatory functions have been run in parallel with induction sessions for new arrivals. During the course of 2012/13 the majority of staff also attended a bespoke two day training course on the economics of NHS reform. We conducted exit interviews with those leaving the organisation and analysed their reasons for leaving. This feedback in 2012/13 showed that as in other years staff turnover was due to a range of factors including personal life choices and some excellent career progression opportunities that people have taken up following the development and experience they have gained at Monitor. Turnover remains within acceptable levels for an organisation of our size and staff profile.

Wellington House – putting the organisation on a single site
We have committed to Wellington House, in Lambeth, as our long term accommodation for the whole organisation. The refurbishment of Monitor's space in the building has commenced and the entire organisation will be based there by the end of 2013. The new environment for staff should assist collaboration and flexibility – all supported with the appropriate use of technology such as video-conferencing.

Preparing for new policy areas
The most significant project in our programme of policy development during 2012/13 was the development of the provider licence. The terms of the new licence were significantly influenced by stakeholders' responses to our extensive engagement and consultation during 2012. We listened carefully and made changes to the original draft licence. We have also looked to learn lessons from our own experience with foundation trust regulation and by drawing from the experience of others.

The licence contains obligations for providers of NHS services that will allow Monitor to fulfil our new duties in relation to:

- setting prices for NHS-funded care in partnership with NHS England;
- enabling integrated care;
- safeguarding choice and preventing anti-competitive behaviour which is against the interests of patients;
- supporting commissioners in maintaining service continuity for patients; and

- enabling Monitor to continue to oversee the way that foundation trusts are governed.

Another major focus for our policy development was in laying the groundwork for our future pricing function. In particular we gathered evidence and carried out an analysis of how the current reimbursement system works. This confirmed that accurate cost data would be a key requirement to enable improvement to be made.

Summary of regulatory action in 2012/13

The following pages summarise the NHS foundation trusts:

- found in significant breach of their terms of authorisation during 2012/13, where Monitor used its statutory powers of intervention:
- found in significant breach of their terms of authorisation during 2012/13, where Monitor did not use its statutory powers of intervention;
- which remained in significant breach throughout 2012/13; and
- which demonstrated improvements and were removed from significant breach during 2012/13.

From 1 April Monitor took on its new powers as the sector regulator for health, with responsibility for licensing providers of NHS-funded services. Although the basis of our regulatory scrutiny has changed, we continue to regulate NHS foundation trusts and take regulatory action where necessary. Instead of ensuring they comply with their terms of authorisation, we now ensure they comply with the conditions of the new provider licence.

To ensure the continuity of our regulatory scrutiny, in April 2013 we reviewed all outstanding issues at the foundation trusts which were in significant breach of their terms of authorisation and confirmed the enforcement action we were taking over known or potential breaches of the new provider licence. This was not new action, but the translation of known issues at these trusts into the new regulatory regime.

We continue to apply consistent and robust principles to ensure foundation trusts are well run and financially sound, and that trusts understand the new system and what is expected of them in order to deliver quality care for their patients in line with the requirements of Monitor's new provider licence.

On 10 June, we announced investigations into four trusts for the following reasons:

- Aintree University Hospital NHS Foundation Trust failed to meet C. difficile, MRSA, A&E 4-hour waiting time and the Referral to Treatment (admitted patients) targets;
- Poole Hospital NHS Foundation Trust had a predicted financial deficit;
- South Warwickshire NHS Foundation Trust had persistently breached A&E targets; and
- University Hospital Southampton NHS Foundation Trust had persistently breached A&E targets.

If we find the trusts unable to address these issues quickly and effectively we may find the trusts to be in breach of their licence conditions and take enforcement action. We will make an announcement about the result of the investigations once we have reviewed all available evidence.

The information contained in these pages is correct as at **10 June 2013**. You can visit our website for the latest information.

Summary of regulatory action

NHS foundation trusts found in significant breach of their terms of authorisation during 2012/13, where Monitor used its statutory powers of intervention.
Sherwood Forest Hospitals NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in September 2012: the general duty to exercise its functions effectively, efficiently and economically; and its governance duty. It failed to plan appropriately for its PFI, including failing to deliver recurrent savings of £10 million in the preceding financial year and made a £5.9 million loss in quarter 1 2012/13. In October 2012 Monitor took regulatory action to ensure the trust had strong leadership, could deliver high quality services to patients and was financially viable. Monitor appointed an interim chair and required the appointment of a permanent chief executive officer. In light of emerging concerns about faulty tissue tests for breast cancer patients, in October 2012 the Care Quality Commission (CQC) undertook an urgent inspection into breast cancer screening, pathology and clinical governance. Monitor instructed the trust to commission a series of reviews including a review of quality governance, a review of board governance, an independent external review of the trust's financial situation and a strategic review of long-term options for financial viability. In April 2013 Monitor confirmed the enforcement action it was taking over the trust's breach of the new provider licence. The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured that the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions. This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.
Bolton NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in April 2012: its governance duty; and its health care targets and other standards duty. This was triggered by the trust's failure to meet health care targets, specifically A&E waiting times and the Referral To Treatment (RTT) 18-week target, and failings in board governance. Monitor required the trust to obtain an independent review of its board governance and to develop and implement action plans for sustainable improvements in RTT and A&E targets. In August 2012 Monitor used its formal powers of intervention due to the trust's worsening financial position which had led to a failure to comply with its general duty to exercise its functions effectively, efficiently and economically.

Monitor appointed an interim chair and the trust was required to appoint a turnaround director and external advisors to assist in the development of a robust financial recovery plan.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings to remedy other potential breaches within an agreed timescale. Monitor required the trust to develop an action plan by May 2013 in agreement with NHS North to address identified issues with infection control to reduce C.difficile cases. The trust was also required to implement the recommendations of an April 2013 external report into quality governance and data quality.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions.

NHS foundation trusts found in significant breach of their terms of authorisation during 2012/13 where Monitor did not use its statutory powers of intervention

Rotherham NHS Foundation Trust

The trust was found in significant breach of its terms of authorisation in February 2013 due to its failure to address financial problems promptly and effectively. Monitor took regulatory action to improve the trust's management of finances and to make sure that patient services remain sustainable.

The trust has significantly underperformed on its financial plans leading to concerns about the way the trust is governed. Key concerns include the trust's failure to deliver on its savings plans and to successfully implement a new electronic patient records system which has led to problems booking patient appointments and loss of income for the trust.

Monitor required the trust to take urgent action to review and strengthen its corporate and financial governance arrangements and address its financial problems. The trust appointed an electronic patient record expert to resolve ongoing issues with the system and was required to submit a recovery plan by May 2013 and a 3-year strategic plan by September 2013.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible. The trust has also had an additional licence condition imposed to ensure it is being run in a way that delivers the changes needed.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

Stockport NHS Foundation Trust

The trust was found in significant breach of its terms of authorisation in January 2013 due to consistent failure to meet its A&E 4-hour waiting times target in four financial quarters. The trust's failure to make sufficient progress in addressing the issues also led to concerns that there are weaknesses in the board's governance processes.

Monitor took regulatory action to make sure immediate steps were taken to sustainably improve A&E performance and to address underlying governance problems so any future issues can be dealt with quickly and effectively.

Monitor required the trust to develop and implement an action plan in order to achieve sustainable compliance with the A&E target. The trust has also been asked to ensure it has the necessary capacity and capability in its executive and operational teams to deliver the plan, and to take on additional resources for this if necessary. Monitor worked closely with local Clinical Commissioning Groups and the NHS England area team to ensure a coordinated system approach to holding the trust to account for rectifying the underlying issues.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible. By June 2013 the trust is required to implement its action plan to address all recommendations from an external review of board governance.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

Cambridge University Hospitals NHS Foundation Trust

The trust was found in significant breach of its terms of authorisation in November 2012 due to successive failure to meet health care targets including waiting times for cancer treatment and A&E performance.

These concerns were compounded by multiple occurrences of preventable patient safety incidents ('never events') and poor financial performance, giving rise to concern that the Board had not dealt adequately with a range of issues the trust had faced over recent years.

Monitor required the trust to commission a board governance and effectiveness review. We also instructed the trust to appoint an experienced turnaround expert at Board level and to develop with them a financial recovery plan.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible. The trust must continue to address all aspects of its action plan for 62-day cancer target breaches, its action plans for RTT target breaches and for A&E

breaches. In addition, the trust must implement an action plan to address all issues arising from the external review of its board governance and effectiveness.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

Kettering General Hospital NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in October 2012: the general duty to exercise its functions effectively, efficiently and economically; its governance duty; and its health care targets and other standards duty. The trust persistently failed to meet its A&E 4-hour target and there were concerns about its board governance and financial performance.

Monitor required the trust to improve its A&E performance through the implementation of a robust action plan; take rapid action to strengthen the 2012/13 financial plan, with particular focus on cost savings and cash management; and commission a review of its board governance. The trust was required to deliver an urgent care action plan and return to compliance with the 4-hour maximum waiting time A&E target by April 2013.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's breach of the new provider licence. The trust has also had additional licence conditions imposed to ensure it is being run in a way that delivers the changes needed.

The trust was required to submit a financial plan and action plan to address the recommendations of the external governance report by April 2013. It must also submit a strategic plan to secure its clinical and financial viability by September 2013.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured that the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions.

Royal National Hospital for Rheumatic Diseases NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in May 2012: its general duty to exercise its functions effectively, efficiently and economically. This was as a result of a deterioration in the trust's financial position in 2011/12, and a forecast of a weak financial position in 2012/13.

Monitor previously intervened on two occasions at the trust (in 2008 and 2009) due to the trust's failure to comply with its general duty to exercise its functions effectively, efficiently and economically. Monitor intervened for a third time in April 2009 to appoint a Chief Executive.

The trust is in serious financial distress as a result of changes in commissioner

requirements for its services. RNHRD is a small trust, providing a limited number of specialist services, and a reduction in demand for these presents major financial challenges. A return to financial viability is only likely to occur through major restructuring, potentially involving a merger

In April 2013 Monitor confirmed the enforcement action being taken over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

We are requiring the trust to develop a robust plan that delivers a sustainable future and work with stakeholders to secure the appropriate funding support. The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured that the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions.

NHS foundation trusts that remained in significant breach throughout 2012/13

Mid Staffordshire NHS Foundation Trust

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

Monitor intervened in March 2009 to appoint an interim chair and required the trust to appoint an interim chief executive. We intervened again in July 2009 to appoint an interim chief executive.

In September 2012 an independent Contingency Planning Team (CPT) was appointed to examine viable long-term solutions for providing services to patients. In its interim report (published in January 2013) the CPT found that, although the trust was providing safe care, it would not be able to do so on a sustainable basis in the future.

In February 2013 Monitor began the procedure for putting the trust into administration in order to safeguard services for local patients and in April 2013 Monitor announced the appointment of trust special administrators. The trust special administrators are expected to make recommendations on how to ensure the continued delivery of services for patients. The trust special administrators expect to consult on their proposed solution for the trust from the end of June 2013.

Heatherwood and Wexham Park Hospitals NHS Foundation Trust

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

We intervened again at the trust in October 2009 to appoint an interim chair, and to

direct the trust to appoint an interim medical director.

During 2010/11 the trust developed a financial recovery plan based on planned reductions in commissioned activity and improved operational efficiency. The trust delivered the plan for 2010/11 and financial performance was substantially improved. However, the financial position deteriorated again in 2011/12.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right the potential breaches as soon as possible. The trust is required to submit to Monitor by September 2013 a deliverable strategic plan to address its financial issues.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

Basildon and Thurrock University Hospitals NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in November 2009: its general duty to exercise its functions effectively, efficiently and economically; its governance duty; and its health care targets and other standards duty. This was as a result of a number of quality concerns. We intervened and required the trust to appoint a taskforce to improve quality and put in place key performance indicators to demonstrate progress and to strengthen senior clinical capacity.

Since Monitor's intervention, the trust showed improvements in all original areas of concern. However, Monitor continued to be concerned that the trust's underlying governance was inadequate, leading to the presentation of new issues. In May 2012 Monitor commissioned an independent review of legionella management at the trust after the CQC had expressed
concern.

Since Monitor's intervention, there have been a number of Board changes. In 2012, the trust appointed a new Chief Executive Officer and Chair.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

Monitor required the trust to produce an urgent care action plan to achieve compliance with the A&E target and RTT targets and conduct a review of mortality rates. The trust was also required to produce a paediatric action plan, governance plan and turnaround plan.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.

Milton Keynes Hospital NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in March 2010: its governance duty. This was triggered by concerns raised by CQC in respect of maternity services and Monitor's concerns relating to effective, timely and pro-active design and implementation of maternity action plans, the effectiveness of board assurance processes, and board and clinical leadership. We intervened and required the trust to appoint external, expert clinical advisers to assist in accelerating the delivery of the necessary improvements within its maternity service.

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

In March 2010 Monitor used its regulatory powers to require the trust to appoint expert clinical advisers to assist the trust to accelerate the delivery of improvements within its maternity service.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

The focus of Monitor's regulatory action is now on the trust's short-term financial position and also its long-term viability. The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right potential breaches and returned to full and sustainable compliance with its licence conditions.

Tameside Hospital NHS Foundation Trust

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

The trust developed a recovery plan to address both financial and governance concerns and performed well against this plan in 2011/12. However, the trust had substantial improvements to make in 2012/13 in order to deliver a surplus financial position.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings to remedy other potential breaches within an agreed timescale.

The trust was required to submit by April 2013 its 3 year strategic plan and a financial plan that returns the trust to a financial risk rating of 3 by the end of quarter 4 2013/14. The trust is also required to commission an external review on the robustness and adequacy of its 2013/14 CIP schemes and plan.

The trust must report regularly on progress towards delivery of key milestones and meet Monitor on a regular basis until we are assured it has put right the breaches and returned to full and sustainable compliance with its licence conditions.

This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.

Medway NHS Foundation Trust

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

The trust improved its financial performance in 2012/13, and reported a financial risk rating of 3 throughout the year.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

The trust breached its A&E 4-hour waiting times target in three consecutive quarters from quarter 3 2011/12 to quarter 1 2012/13. The trust was required to submit to Monitor an urgent care action plan by June 2013 to achieve sustainable compliance with the A&E target. It must also produce a financial plan which evidences a sustainable financial risk rating of at least 3 from quarter 1 2013/14.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured it has put right the breaches and returned to full and sustainable compliance with its licence conditions.

This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.

Peterborough and Stamford Hospitals NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in October 2011: its general duty to exercise its functions effectively, efficiently and economically; its governance duty; and its duty to remain financially viable. This was triggered by an unplanned financial risk rating of 1 at quarter 1 2011/12 and concerns relating to the trust's financial position and the board's oversight of financial planning.

In June 2012 Monitor commissioned an independent report looking at the financial challenges facing the trust. Despite the trust's efforts, the initiatives in place were not sufficient to return the trust to financial sustainability.

In December 2012 Monitor announced that it would appoint a Contingency Planning Team to develop a plan to ensure the sustainability of services for patients and minimises the need for further funding from the taxpayer.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

The trust is required to produce an annual financial plan for 2013/14 and to conduct an independent review of its Finance Function, by June 2013. The trust must also take steps within its control to meet the 4-hour A&E target sustainably from quarter 2 2013/14 following breaches of the target in quarter 2, quarter 3 and quarter 4 2011/12 and in quarter 1 and quarter 2 2012/13.

In June the Contingency Planning Team found that the trust is clinically and operationally sound, but financially unsustainable. The team will make an independent recommendation on the future configuration of services currently supplied by the trust to ensure that they are delivered on a sustainable basis for the benefit of the local population. It is expected to present options to Monitor's Board at the end of June 2013.

University Hospitals of Morecambe Bay NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in October 2011: its general duty to exercise its functions effectively, efficiently and economically; its governance duty and its health care targets and other standards duty.

Monitor appointed clinical experts to review underlying problems in maternity services and required the trust to commission an independent review into overall governance. We intervened again in February 2012 to appoint an interim Chair, Turnaround Director and interim Chief Operating Officer and to develop a Programme Management Office and peer review.

Since our second intervention the trust has strengthened the board, developed a turnaround plan, and made progress in addressing concerns in all other areas.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings to remedy other potential breaches within an agreed timescale.

The trust was required to develop an emergency care plan, financial recovery plan and action plan in response to an external governance follow up review. It must also develop a strategic plan and a plan to address any recommendation from a follow up maternity review.

Burton Hospitals NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in November 2011: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. The trust was previously found in significant breach in February 2010, which was as a result of governance concerns related to persistent breaches of the A&E target. The trust was removed from significant breach in November 2010 after improvements had been made to its A&E performance and the management of targets. Since being found in significant breach in November 2011, the trust prepared a financial recovery plan which included cost improvement plans. It also reviewed capacity and capability within the organisation and invested in additional resource. In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible. The trust has undertaken to produce a financial recovery plan and obtained an external governance review. The trust is preparing its 2013/14 plan, which addresses its strategic challenges, for Annual Plan Review submission by June 2013, as well as an action plan to address A&E and Referral To Treatment issues. The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions. This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.
Southend University Hospital NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in December 2011: its governance duty; and its health care targets and other standards duty. This was triggered by the trust's ongoing failure to meet cancer and C.difficile targets and CQC concerns which resulted in the trust being red-rated for governance risk by Monitor in the first quarter of 2011/12. Monitor did not formally intervene but agreed with the trust that it would commission external support to develop and assure its governance systems and support the trust in developing robust financial plans. In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible. An initial review of governance was completed and followed up with outstanding

issues identified. The trust is engaged with the Emergency Care Intensive Support Team to support delivery of an emergency care action plan.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured the trust has put right the breaches and returned to full and sustainable compliance with its licence conditions.

Derby Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in January 2012: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. This was triggered by a planned financial risk rating of 2 at quarter 1 2011/12 and the trust's financial performance in 2011/12.

Monitor's scrutiny of the trust raised concerns about its poor financial performance and its future plans to address this. These concerns were confirmed by an independent review, which indicated the trust's Board did not have a strong enough role in scrutinising financial planning and performance and that its financial plans required further development. Monitor required the trust to develop a robust financial plan for 2012/13 and to strengthen its financial governance.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's potential breach of the new provider licence. Monitor required and the trust agreed to give legally binding undertakings that it will put right potential breaches as soon as possible.

In February 2013 the trust was considered for de-escalation but it was determined that the trust should not be de-escalated due to multiple targets breached at quarter 3, including A&E, C.difficile and cancer (62-day screening). The trust continues to experience pressure on its A&E target and has flagged risk to achievement of this and other targets at quarter 1 2012/13 (C.difficile, 62 day cancer and RTT admitted). The trust has engaged with the Emergency Care Intensive Support Team (ECIST) to review performance against the eight key ECIST principles.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured it has put right the breaches and returned to full and sustainable compliance with its licence conditions.

Queen Elizabeth Hospital King's Lynn NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in January 2012: its general duty to exercise its functions effectively, efficiently and economically; and its governance duty. The trust had a financial risk rating of 2 at quarters 1 and 2 2011/12 and quarter 1 2012/13. The trust had also failed to deliver against its financial recovery plan. The trust was required to develop a recovery plan in order to return to a sustainable position. Monitor also required the trust to commission an external review of financial governance.

In April 2013 Monitor confirmed the enforcement action it was taking over the trust's

potential breach of the new provider licence. Monitor required and the trust agreed to give binding undertakings that it will put right potential breaches as soon as possible.

The trust is required to develop and submit to Monitor a 3-year financial recovery plan which secures long-term financial viability by June 2013. The trust failed the A&E 4-hour target in quarter 4 2012/13 (second consecutive quarter) and is developing an A&E action plan to rectify this.

The trust is required to report regularly on progress towards delivery of key milestones and to meet Monitor on a regular basis until we are assured it has put right the breaches and returned to full and sustainable compliance with its licence conditions.

NHS foundation trusts removed from significant breach during 2012/13

Wirral University Teaching Hospital NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in March 2012: its governance duty; and its health care targets and other standards duty. This was triggered by a failure of the trust's Board to address breaches of the Referral To Treatment waiting time (RTT) target appropriately.

The trust had been aware of the problems with meeting the RTT target from November 2010, but had failed to tackle the underlying causes. Monitor required the trust to obtain an independent review of its board governance. In addition, we required the trust to develop and implement a plan for sustainable RTT compliance, for which the NHS Intensive Support Team provided support.

Since being found in significant breach, the trust met the RTT target each month and in February 2013 Monitor, reflecting the improvements the trust had made in reducing waiting times for patients needing routine surgery and in the way the Board runs the trust, removed the trust from significant breach.

Gloucestershire Hospitals NHS Foundation Trust

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

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

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

The trust took steps to improve the way it runs its A&E department and this was reflected in improved performance and reduced waiting times. The trust also strengthened Board oversight of A&E performance and enhanced leadership and capacity at Board level to ensure the progress it made is sustainable and any future problems could be addressed effectively.

In December 2012 Monitor confirmed the trust was no longer in significant breach of its Authorisation having made substantial improvements to its delivery and oversight of emergency care.

James Paget University Hospitals NHS Foundation Trust

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

Since Monitor found the trust in significant breach, there is a new chair who started in June 2012, and a new interim chief executive recruited to oversee the turnaround.

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

In December 2012 Monitor confirmed the trust was no longer in significant breach of its terms of authorisation, having made substantial improvements to the way it deals with risks to patients. The trust has now demonstrated it is meeting CQC standards and Monitor is satisfied it has taken steps to address gaps in board governance and risk management procedures.

Blackpool Teaching Hospitals NHS Foundation Trust

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

The trust successfully implemented a recovery plan to address both financial and governance concerns. We monitored closely the trust against its financial recovery plan. The trust achieved a surplus above plan in 2011/12 and delivered a challenging cost improvement plan in line with plan. The Board also commissioned an external review of its governance to provide assurance on board effectiveness and high-level governance arrangements.

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

This trust is subject to the Keogh review as it is an outlier on mortality. Monitor will consider its regulatory response once the outcome of the review is known.

Cambridgeshire and Peterborough NHS Foundation Trust

The trust was found in significant breach of one term of its authorisation in March 2012: its governance duty. This was triggered by a warning notice as a result of the failure of the trust's Board to address CQC concerns within an appropriate period of time, leading the CQC to take enforcement action. The trust undertook a review of board governance and agreed with Monitor that it would undertake a review of quality governance.

The trust's Board was strengthened with the appointment of a new chair and new non-executive directors. The executive team also saw significant change with the appointment of a new chief executive officer, director of nursing, medical director and director of operations. The trust was required to put in place a turnaround plan to assure improvements in quality governance.

In March 2013 Monitor announced it had decided the trust was no longer in significant breach of the terms of its authorisation. This was due to the trust taking steps to improve the effectiveness of its patient assessment and care planning procedures. In addition, the Board implemented changes to tackle weaknesses in its quality governance.

Actions for 2012/13: operating a rigorous assessment process

Goal	Actions	Outcome
Maintain a high and consistent standard of assessment as the number of applicants increases.	Provide Monitor's Board with high-quality analysis and insight on each assessment to inform the authorisation decision.	Done
	Continue to maintain the bar for authorisation, updating our financial assumptions in the assessor and downside cases.	Done
	Continue to promote a proportionate and robust approach to quality governance within the assessment process, refining as appropriate.	Done
	Continue to build on our strong working relationship with the Care Quality Commission (CQC), through the memorandum of understanding, to ensure its input on governance and quality performance issues is appropriately utilised in the assessment process.	Done
	Continue to communicate our assessment process effectively, including changes to it arising from the recent review and our approach to quality governance, to all stakeholders through a range of communications channels.	Done
	Communicate with non-NHS foundation trusts to help them understand our regulatory approach and our wider programme of work both before and throughout the assessment process.	Done
	Continue to ensure that the constitutions and all legal governance arrangements of applicant trusts are legally compliant and otherwise appropriate.	Done
Work with the Department of Health to help it ensure a high-quality pipeline of applicants, ensuring appropriate notice and phasing of applications.	Support the Department of Health in developing a realistic plan for putting forward high-quality applicants for NHS foundation trust status so that all eligible trusts have been assessed to meet the Department's target date for an all-foundation trust NHS provider sector.	Done
Ensure assessment process remains fit for purpose.	Implement recommendations from the review of the assessment process carried out in 2011/12.	Done
	Ensure that any changes to the assessment process take into account how any changes to legislation, including implications of Monitor's new NHS foundation trust oversight function,	Ongoing

	will affect the existing assessment function.	
Ensure that Monitor has the capacity and capability to conduct timely assessments of applicant trusts, and proposed mergers and transactions.	Continue to review the structure of the assessment team and the executive and non-executive resources required to match capacity to the Department of Health's trajectory of applicants for 2012/13, starting assessments as soon as possible and not later than six months after the Secretary of State's referral.	Done
	Develop a staffing plan for the assessment team, considering recruitment and retention, to support the projected applicant pipeline.	Done
	Ensure the provision of advice on legal issues is relevant to applications for NHS foundation trust status from all aspirant trusts.	Done
	Ensure the provision of legal advice for assessment, as required, to reflect changes in the Health and Social Care Act 2012 and any other relevant legislation.	Done

Actions for 2012/13: operating a proportionate, risk-based regulatory regime

Goal	Actions	Outcome
Develop and implement a new oversight regime reflecting Monitor's new statutory requirements as NHS foundation trust regulator in the Health and Social Care Act 2012.	Develop and publish a new oversight regime for consultation, reflecting how Monitor will oversee NHS foundation trusts following licensing commencement date.	Done
	Ensure an effective transition between the current and new regimes.	Done
	Train internal staff on implementing the new regime.	Done
	Develop and implement staffing plans: • for the transitional period immediately prior to licensing commencement date; and • for the new oversight regime post-licensing commencement.	Done
	Educate NHS foundation trusts on the principles and mechanics of the new regime.	Ongoing
	Communicate details of the new regime to stakeholders.	Ongoing

	Ensure new oversight regime assesses transactions in an appropriate manner and does not inhibit beneficial corporate actions, reconfigurations or service innovation.	Ongoing
	Ensure the provision of legal advice in preparing the new oversight regime.	Done
Continue to develop Monitor's processes, systems and capacity to meet the expected increase in the volume and complexity of compliance activity, in line with increased number of authorised NHS foundation trusts and transactions, and reflecting the current economic climate.	Recruit and retain high-quality people with relevant skills and clear accountabilities.	Ongoing
	Ensure that each team has sufficient capacity when undertaking regulatory reviews of NHS foundation trusts.	Ongoing
	Prepare compliance systems and policies for the growth in number and range of NHS foundation trusts and for a potential increase of the number in financial difficulty and facing quality issues.	Done
	Provide advice on the regulatory framework and public law considerations to ensure that Monitor's documentation, processes and decisions are legally compliant.	Done
Ensure an effective range of approaches for interventions and other regulatory issues at NHS foundation trusts.	Develop our approach to intervention, drawing on internal expertise and building on current networks of external advisers in finance, governance and clinical areas, including specialist governance firms.	Done
	Ensure the provision of appropriate legal support and advice on escalations and interventions, to ensure compliance by Monitor with public law and regulatory obligations.	Done
	Investigate diagnostic approaches to NHS foundation trusts potentially in significant breach, assessing overall compliance in addition to reasons for specific breaches.	Done
Ensure a rigorous approach to the identification of future risk at NHS foundation trusts.	Ensure that the annual plan process captures the appropriate information relating to NHS foundation trusts' strategic planning and potential risks.	Done
	Review NHS foundation trusts' annual plans in order to assess financial, governance and quality risk, including the risks posed by commissioning reforms. Based on this, produce an overview report on the trends and risks facing the sector.	Done

Continue to develop and assess annual reporting for NHS foundation trusts.	Review our internal processes for preparing NHS foundation trusts' consolidated reports and accounts for 2012/13.	Done
Continue to work with existing and emerging external partners and stakeholders to support compliance activities.	Continue to embed and update the operational aspects of the memorandum of understanding and the close working practices agreed with the CQC, with particular attention to coordinating action. This includes regular communication of actual or potential risks to terms of authorisation or registration, sharing of relevant information and coordination of regulatory activity.	Done
	Continue to work with commissioners and strategic health authority clusters to support oversight activities.	Done
	Continue to work with the NHS Commissioning Board (now known as NHS England), Department of Health, HM Treasury and others on policy that is relevant to regulatory oversight of NHS foundation trusts, such as commissioning strategy and capital and other financial arrangements, particularly for those in financial difficulty.	Done
	Work with partners to coordinate the implementation of recommendations from the Mid Staffordshire NHS Foundation Trust Public Inquiry.	Ongoing
	Deliver and implement a communications plan for engaging with clinical commissioning groups, NHS England and the transitional NHS Trust Development Authority.	Ongoing
Continue to communicate Monitor's regulatory requirements.	Ensure information about Monitor's oversight approach is widely disseminated to existing, aspirant and applicant trusts.	Done
	Keep NHS foundation trusts informed about regulatory developments.	Done
Continue to develop our regulatory intelligence capability.	Develop analytic approaches that enhance our ability to highlight and monitor sector trends, informing forward risk assessments and strengthening our overall insights on risk for internal and external stakeholders.	Ongoing

Actions for 2012/13: Promoting the development of well-led NHS foundation trusts

Goal	Actions	Outcome
Support boards of directors to lead improvements in value, quality and efficiency.	In partnership with the Foundation Trust Network, evaluate and, where necessary, revise the joint programme for chairs of NHS foundation trusts to help them better understand and exercise their role.	Done
	Consider holding a one-day event to support the development and delivery of sustainable cost improvement plans.	Done
	Working with partners, consider establishing a best practice document or programme for whole board development.	Done
	Develop and hold a conference for non-executive directors of existing and aspirant NHS foundation trusts to address key challenges and help build skills and confidence.	Done
	In partnership with others, run events and provide materials and insights from lessons learned to support boards of directors in improving quality governance.	Done
	Continue to communicate NHS foundation trust board development initiatives, working with partners such as the Foundation Trust Network.	Done
Support governors to understand and develop their capability and capacity with regard to current and future statutory responsibilities.	Extend the current Monitor guide for governors to support governors in better understanding and exercising their statutory duties, roles and additional responsibilities in light of the Health and Social Care Act 2012.	Ongoing
	Support the Department of Health and third parties to develop and implement a high-quality national governor training framework.	Ongoing
	Publish and share key messages from the best practice document on how boards of directors and boards of governors interact.	Done
Stimulate NHS foundation trusts to develop approaches to	Working with partners, evaluate the success of the programme designed to help trusts improve the effectiveness of service-line management.	Ongoing

service-line management.	Develop and publish a framework setting out the stages of service-line management implementation, supported by case studies. Subject to resource availability, consider conducting a survey to assess progress in the sector in implementing service-line management.	Ongoing
	Consider developing a self-assessment tool for NHS foundation trusts, based on the framework developed as above.	Ongoing
	Identify and work with partners to run events to highlight lessons learned from the service-line management approach.	Done

Actions for 2012/13: contributing to and influencing the development of an affordable, devolved system of health care provision

Goal	Actions	Outcome
Maintain strong strategic relationships with stakeholders.	Build and maintain strong relationships with the Department of Health, CQC, No. 10, HM Treasury, NHS England and other major health and social care stakeholders.	Done
Contribute to and influence policy development relating to NHS foundation trusts, supported by economic analysis, and assess its implications.	Continue to contribute to the development of a coherent quality framework through our work with the National Quality Board.	Done
	Respond to the recommendations of the Mid Staffordshire NHS Foundation Trust Public Inquiry in relation to the regulatory regime for NHS foundation trusts and Monitor's interactions with other bodies in the health care sector.	Ongoing
	Continue to shape the future information architecture for the NHS, working with the Department of Health, NHS England and the Information Centre for Health and Social Care and others.	Done
	Lead the thinking on issues facing NHS foundation trusts, for example reconfiguration and service redesign.	Ongoing
	Conduct a study to identify good practice in new service models resulting from coordination and integration between community, primary and secondary care.	Ongoing
	With partners, support the Department of Health in developing its arrangements for capital for NHS foundation trusts.	Ongoing

	Continue to support and contribute to the development of legislation in relation to NHS foundation trusts.	Done
	Review and revise the *NHS Foundation Trust Code of Governance*.	To follow in 2013/14.
	Communicate our response to the Mid Staffordshire NHS Foundation Trust Public Inquiry and any follow-up actions undertaken by Monitor.	Ongoing
	Ensure provision of relevant legal advice, as required, to support policy development and regulatory decisions.	Done
Work with key stakeholders to set the policies regarding provider regulation.	Review and update the Memorandum of Understanding with the CQC as necessary, to reflect conclusions from the Mid Staffordshire NHS Foundation Trust Public Inquiry and changes to regulatory regimes and practice, for example, the ongoing review of CQC's regulatory model.	Done
	Work with the Department of Health and NHS England to ensure future licensing and compliance arrangements, standard contract and the *NHS Outcomes Framework* (or equivalent) are properly aligned to support a balance between regulatory and contractual requirements, and the autonomy of NHS foundation trusts.	Ongoing
	Forge a memorandum of understanding with NHS England to govern matters of mutual interest, particularly reconfiguration and service redesign involving NHS foundation trusts.	Done
	Establish a clinical advisory group to support Monitor's development of regulation affecting mental health and community services providers, building on the model established by the current Medical Advisory Group.	Done
	Ensure the development of Monitor's sector regulation and NHS foundation trust regulation functions complement each other and do not result in disproportionate burdens being placed on NHS foundation trusts.	Done
Communicate with key stakeholders regarding Monitor's role and responsibilities.	Continue to build awareness and understanding of the role of Monitor among stakeholders in England and improve their understanding of the accountability structure and regulatory framework in the devolved NHS.	Done

	Ensure that Monitor remains an influential contributor to debates on the delivery of health care services.	Done
	Continue to work closely with the CQC in preparing joint communications that ensure clarity regarding our respective roles within the regulatory system.	Done

Actions for 2012/13: continuing to improve as a high-performing organisation

Goal	Actions	Outcome
Ensure that Monitor has the appropriate board-level organisational and committee structures and processes in place to support our current and future oversight role.	Ensure a smooth transition following the appointment of additional non-executive directors from spring 2012.	Done
	Ensure a smooth transition from interim Chief Executive arrangements once the post has been filled substantively.	Done
Ensure that all staff remain committed to our culture, values and behaviours.	Continue to demonstrate and promote Monitor's commitment to professionalism, respect, personal responsibility, recognition and collaboration at all levels of the organisation.	Done
Ensure that Monitor has the appropriate structure, capabilities and resources to support its work.	Review the capacity and capability of our assessment, compliance, policy, communications and legal teams and support services to ensure they are staffed appropriately to maintain continuity of current functions during 2012/13.	Done
	Review the capacity, capability and functions of our teams to ensure they are staffed appropriately for the changes to the regulatory architecture from 2013.	Done
	Provide legally sound advice to the Board, Senior Management Team and all operational areas and identify and manage all legal risks to ensure a legally compliant organisation.	Done
	Ensure that our regulatory approach and views on policy are clearly communicated externally and that our communications team have the skills to operate effectively against a backdrop of increasing financial and governance challenges for NHS foundation trusts.	Done
Attract and recruit talented people into the organisation and retain	Continue to recruit high-quality people with relevant skills and clear accountabilities into appropriate roles, exploring a range of initiatives such as secondment	Ongoing

current employees, supported by high-quality learning and development programmes.	opportunities from other regulators or by setting up a development programme for internal applicants who wish to build their skill base.	
	Continue to offer a range of personal and professional development opportunities, both internally and externally, to support staff to maximise their full potential.	Done
	Build on current 360° feedback to ensure transparent communication of performance throughout our organisation.	Done
	Explore new employee reward schemes within the current public sector payment constraints.	Ongoing
Publish high-quality information on the performance of Monitor and the NHS foundation trust sector.	Ensure that Monitor's website provides access to useful, transparent and timely information about Monitor and NHS foundation trusts.	Done
	Respond with timely, accurate and helpful information to enquiries from the public and information requests from Parliamentarians.	Done
	Ensure that all statutory communication requirements are met.	Done
Work efficiently within Monitor's operating budget.	Continue to maintain robust internal financial control procedures to ensure that annual financial balance is achieved.	Done
Provide efficient and value for money facilities to support an expanding organisation.	Continue to maintain a high quality and safe working environment that supports delivery of Monitor's functions, enhances staff performance and balances quality and cost, including energy efficiency.	Done
Continue to develop a culture committed to effective information and knowledge management, supported by relevant processes and information systems, to support teams in carrying out their current and future functions.	Continue to promote a knowledge management culture within Monitor to encourage the sharing of information and knowledge more widely, and improve access to information and the retention of corporate knowledge.	Done
	Ensure the delivery of current knowledge implementation plans relating to: assessment; daily compliance activities; escalation-based compliance activities; and Monitor as a whole.	Done
	Begin to prepare to support Monitor's new functions and our information capability in delivering them.	Done

Management commentary

These accounts reflect the operations of Monitor. Monitor was originally established in January 2004 under the Health and Social Care (Community Health and Standards) Act
2003 and it continues under the Health and Social Care Act 2012. Monitor has responsibility for authorising, monitoring and regulating NHS foundation trusts and, in addition, it has been assigned the role of sector regulator for health care services under the Health and Social Care Act 2012. Further information on Monitor's role can be found on page 2 of this report. Monitor is accountable to Parliament and independent of government.

In accordance with the provisions of Schedule 8 of the Health and Social Care Act 2012, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2013.

The Board

Dr David Bennett (Chair)

David was appointed to Monitor's Board by the Secretary of State for Health with effect from 1 March 2011. On 1 November 2012 Monitor's Board appointed him to the permanent post of chief executive. David will remain in his role as chair, pending a new appointment by the Secretary of State.

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

Mr Stephen Thornton CBE (Non-Executive Director, Deputy Chair from 1 April 2012, and Senior Independent Director)

Stephen joined Monitor on 1 October 2006 for three years and was reappointed from 1 October 2009 for a period of four years. Stephen was chair of the Compliance Board Committee until it was abolished on 31 October 2012. He chairs the Remuneration Committee and is a member of the Nomination Committee.

Stephen is chief executive of The Health Foundation, an independent health care charitable foundation working to improve the quality of health care in the UK. He is also vice chair of the Eastern Academic Health Science Network, a member of the Nursing and Midwifery Council and of the Department of Health's National Quality Board.

He has held various senior executive NHS and board positions over the past 15 years. He was chief executive of Cambridge and Huntingdon Health Authority from 1993 to 1997 and chief executive of the NHS Confederation from 1997 to 2001. He was a commissioner on the board of the Healthcare Commission from February 2004 until July 2006. He is an honorary fellow of the Royal College of Physicians.

Ms Jude Goffe (Non-Executive Director until 7 May 2012)

Jude left Monitor at the end of her second term of appointment on 7 May 2012. Until her departure, Jude was the chair of Monitor's Audit and Risk Committee and a member of the Remuneration Committee.

A venture capital and corporate adviser, Jude was previously employed by the 3i Group plc in a number of investment roles, culminating in the position of investment director. From 1994 to 2004, she served as a non-executive director of the Independent Television Commission and a non-executive director of Moorfields Eye Hospital NHS Trust. Jude chaired the trust's Audit and Commercial Services Committees and was a member of its Remuneration Committee. Until December 2012, she was a trustee of the King's Fund. Jude is a chartered accountant by profession.

Ms Heather Lawrence OBE (Non-Executive Director from 1 July 2012)

Heather joined the Board of Monitor on 1 July 2012 for four years. She was a member of the Compliance Board Committee until it was abolished on 31 October 2012. From 1 November 2012 Heather became chair of Monitor's Nomination Committee and a member of the Remuneration Committee.

Heather has 23 years' experience as a chief executive. From 2000 to 2012 she was chief executive of Chelsea and Westminster hospital which gained NHS Foundation Trust status in 2006. Heather also co-designed the North-West London Local Education Training Board to pathfinder status.

Heather chaired the national negotiations for the Staff Grade and Associate Specialists Doctors contract and Agenda for Change three-year pay deal for non-medical staff. She was recently a commissioner for the Prime Minister's Commission for the Future of Nursing and Midwifery and a member of the Dr Foster Global Comparators Founders Board.

Heather originally trained as a nurse at St Mary's Hospital Paddington and is a chartered fellow of the Institute of Personnel Management. Heather has been asked to be the senior responsible officer for the NHS London Productivity Programme to support trusts to foundation trust status.

Heather is also a non-executive director of NMC Healthcare, a FTSE 250 company.

Mr Keith Palmer OBE (Non-Executive Director from 1 April 2012)

Keith joined Monitor on 1 April 2012. From 1 January 2012 until 31 March 2012, he acted as a shadow non-executive director. Keith has been the chair of Monitor's Audit and Risk Committee from 8 May 2012 and a member of the Remuneration Committee from 8 May 2012.

Keith is founder and non-executive chair of InfraCo, a not-for-profit public private partnership that develops infrastructure in developing countries and of AgDevCo, a not-for-profit public private partnership that supports agricultural development in sub-Saharan Africa. He is also a senior associate of the Nuffield Trust.

His previous involvements in the health sector include non-executive director of Guy's and St Thomas' NHS Foundation Trust, chair of Barts and the London NHS Trust and senior associate of the King's Fund.

Other positions that he has previously held include treasurer and trustee of Cancer Research UK and vice-chair of NM Rothschild merchant bank.

Mr Sigurd Reinton CBE (Non-Executive Director from 1 Janauary 2012)

Sigurd joined Monitor for four years on 1 January 2012. He was a member of the Compliance Board Committee until July 2012. Sigurd is a member of the Audit and Risk Committee.

Sigurd is a director of NATS Holdings, which provides the air traffic control services for UK and North Atlantic airspace, and for the main UK airports. At NATS, he

serves on the Audit and Nominations Committees and chairs the Stakeholder Council.

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

Stephen Hay (Managing Director of Provider Regulation)

A chartered accountant, Stephen worked at KPMG as a director within the Transaction Services Department. He advised the boards of corporate and private equity houses and his portfolio of financial experience ranges from mergers and acquisitions, due diligence, initial public offerings to risk assessment. (See also Executive Team).

Adrian Masters (Managing Director of Sector Development)

Adrian was previously director of the Health Team in the Prime Minister's Delivery Unit. Prior to that, Adrian's career included spells with McKinsey & Company, IBM and PwC. He qualified as an accountant and has an MBA from Stanford University. (See also Executive Team).

Executive Team

Dr David Bennett (Chief Executive)

As chief executive, David is responsible for the executive and operational management of Monitor; proposing and developing Monitor's strategy in consultation with the Board; ensuring that the objectives set out in the Business Plan are delivered and that decisions made by the Board are implemented. As chief executive, David is also Monitor's accounting officer. (See also Board members).

Miranda Carter (Executive Director of Assessment)

Miranda is responsible for assessment and authorisation of applicants for NHS foundation trust status, risk assessing significant transactions undertaken by NHS foundation trusts and developing assessment and transaction policy. In 2010 Miranda led the work on Monitor's approach to assessing quality governance at applicant trusts through the development of a Quality Governance Framework.

A chartered accountant, Miranda started her career at Deloitte as an auditor in 1991, working in the UK and Hong Kong. In 1997 she joined PwC and spent four years in the Transaction Services Department in London, focusing on due diligence assignments. She has advised the boards of corporate and private equity houses and her financial experience ranges from mergers and acquisitions, due diligence to initial public offerings.

Catherine Davies (Executive Director of Cooperation and Competition)

Catherine was appointed on 1 October 2012. She came from the Cooperation and Competition Panel (CCP), a body set up to advise the Department of Health and Monitor on the application of the system rules governing cooperation and competition in the commissioning and provision of NHS services in England.

Catherine is a competition law specialist with experience in EU and UK competition law, having advised on mergers and acquisitions, joint ventures, distribution arrangements and market investigations across a range of sectors, including consumer goods, energy, media and health care. She also has experience of public procurement law and judicial review. Before joining the CCP in 2009 she worked at the Competition Commission and a major City law firm.

Stephen Hay (Managing Director of Provider Regulation)

Stephen is responsible for the monitoring, compliance and intervention regime for NHS foundation trusts. This covers issuing licences and overseeing providers' compliance with them; assessing financial risk and, where necessary, operating the Continuity of Services regime and overseeing governance standards in foundation trusts.

Stephen worked at Monitor on an interim basis on secondment from KPMG from December 2003 and was appointed on a permanent basis in October 2004. (See also Board members).

Adrian Masters (Managing Director of Sector Development)

Adrian's role is to lead on the development and maintenance of a fit-for-purpose regulatory framework for Monitor. In addition, Adrian works closely with partners to support future development of the health care sector, including shaping the pricing regime and coordinating economic or policy led projects and reviews. (See also Board members).

Kate Moore (Executive Director of Legal Services)

Kate, a solicitor, joined Monitor in September 2004 as Head of Legal Services. Her role is to ensure that Monitor is a legally compliant organisation in all internal and external undertakings, to advise on and manage all aspects of legal risk and to help guide Monitor to make the most effective use of its statutory powers for the benefit of patients. Kate provides legal and general counsel advice to the Board, chief executive, the executive directors and wider senior management teams.

She has experience of regulatory, litigation and public law gained through her previous roles at City law firms, as director of legal at the Investors Compensation Scheme and as a principal consultant with KPMG.

Sue Meeson (Executive Director of Strategic Communications)

Sue leads Monitor's communications work, ensuring that it supports the business strategy and acts as an enabler in the achievement of business objectives. She advises the Board and Executive Team on communications strategy and tactics as well as leading an integrated programme to build understanding of Monitor’s role among key stakeholders.

Sue was previously Director of Communications for the Legal Services Commission, which runs the legal aid system, and held a variety of corporate communications roles with Unilever. Her experience covers internal and external communications, including media relations, change communications, public affairs and stakeholder engagement.

Management report

Employment

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

Staff survey

Monitor continues to value and act upon feedback from its staff. Monitor has historically carried out a quarterly temperature check to measure ongoing progress in implementing the culture, values and behaviours framework. Staff are asked to rate how well the organisation demonstrated each of the values on a five point scale and comment on how these values are demonstrated. As part of the temperature check staff are also asked to indicate their level of agreement with two statements. During 2012/13 there was only one survey carried out in July 2012 and the results are as follows:

- "Monitor, as an organisation, is a good place to work"– agree to completely agree: 90%
- "I am currently satisfied working at Monitor" – agree to completely agree: 83%

The survey has not been carried out since July 2012 because as part of the organisational restructure and adoption of new functions we are developing new values and metrics against which staff engagement and satisfaction can be measured.

Sickness absence

The average time taken as sick leave by Monitor employees in 2012/13 was 3.0 days (2011/12: 2.7 days).

Environmental impact

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

Pension liabilities

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

Health and safety

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

Statement of payment practices

Unless the amounts charged are considered to be incorrect, Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2013. In March 2010 the Government introduced a five-day payment target for all central government departments, with the expectation that arms-length bodies would also put plans in place to pay within five days. Monitor supports this objective, but as a small organisation with a finance team of three full-time and one part-time member of staff, it is not possible to achieve, since performance from month to month is significantly affected by the working patterns of the individuals processing invoices. However, we are committed to striving to meet a 10-day payment target and the out-turn against this target for the year was as follows.

	Number		Value	
	2012/13	2011/12	2012/13	2011/12
Total number of invoices	5,355	3,632	£26.8m	£11.2m
Invoices meeting target	4,963	3,421	£19.3m	£8.3m
Percentage meeting target	93%	94%	72%	74%

Register of interests

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

Management of information risk and personal data related incidents

Monitor seeks to minimise the risk of a serious incident arising from the misuse of personal or sensitive data. To this end, Monitor has an Information Risk Policy and Information Charter to identify and manage Monitor's exposure to risk in relation to any information it compiles or stores. There were no incidents of personal data being lost or stolen in 2012/13, reportable to the Information Commissioner's Office or otherwise, or in any previous years of Monitor's operations.

Audit

The auditor of Monitor is the Comptroller and Auditor General. Details of the audit fee for the year ended 31 March 2013 are disclosed in note 4 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts for the year ended 31 March 2013, the fee for which is £73,200.

Accounting officer's disclosure to the auditors

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

Sustainability report

GREENHOUSE GAS EMISSIONS			
		2012/13	**2011/12**
Non-financial indicators (tCO_2e)	Total gross emissions for Scope 2	261	235
	Total net emissions for Scope 2	261	235
	Total gross emissions for Scope 3	33*	21*
Related energy consumption (KWh)	Electricity: non-renewable	376,945	308,666
	Gas	304,713	367,241
Financial indicators (£'000s)	Expenditure on energy	50	40
	Expenditure on official business travel	179	101

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

Monitor occupies three floors of a multi-tenanted building at Matthew Parker Street, and two floors of Wellington House. The figures contained in these tables just represent the Matthew Parker Street site; Wellington House is a Department of Health owned property and as such the sustainability figures for the space Monitor occupies will be reported in the Department's annual report.

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

In 2012/13 electricity consumption in terms of KWh per full time equivalent employee (FTE) was 2,432 (2011/12: 2,017). Monitor anticipated that this metric would rise in 2012/13 due to the substantial growth in all areas of the organisation. There has been a surge of meetings throughout the year which has resulted in meeting rooms being fully booked, increasing the electricity used to light the rooms and the accompanying use of IT and kitchen facilities. Matthew Parker Street reached its capacity during 2012/13 causing an increase in usage of the hot desk area to the point where some entire teams had to be moved to Wellington House.

Monitor continues to promote staff awareness in terms of switching off computers and lights when not in use, and has invested further in more energy efficient IT, such as thin client computers for users and "virtualised" servers rather than physical servers.

Monitor expects that energy targets will be further affected by the changes planned in 2013/14. Even as more teams move to Wellington house, occupancy of Matthew Parker Street will remain high due to planned recruitment. It has now been confirmed that Wellington House will be Monitor's permanent office location so a move of all staff is planned in 2013/14.

WASTE				
			2012/13	2011/12
Non-financial indicators (t)	**Total waste**		**23.5**	**27**
	Non hazardous waste	Landfill	9.0	10.3
		Reused/recycled	14.5	16.7
Financial indicators (£'000s)	**Total disposal cost**		**12**	**11**
	Non hazardous waste	Landfill	7	7
		Reused/recycled	5	4

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

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

WATER				
			2012/13	2011/12
Non-financial indicators (m^3)	Water consumption	Supplied	1,013	1,530
Financial indicators (£'000s)	Water supply costs		2	2

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

Financial position

Monitor's net expenditure for the year was £42,703,000 (2011/12: £15,538,000). Staff costs represent 54% of net expenditure at £23,062,000 (2011/12: 90%, £13,914,000). Other operating costs include property, consulting and office expenses.

The main reason behind the increase from 2011/12 is Monitor's transition as it took on new functions under the Health and Social Care Act 2012. For example, setting tariff prices, licensing providers and preventing anti-competitive behaviour. In 2012/13 Monitor was given a budget of £25 million to spend on the Transition Programme and £8.3 million to spend on starting to recruit staff in preparation for taking on additional functions. Owing to late changes in the legislation, some of the work that Monitor had budgeted for did not need to take place in 2012/13, particularly development work relating to price setting as Monitor will not be responsible for price setting until 2014/15 rather than 2013/14 as originally planned. We reduced our grant in aid drawdown for the year to take account of the underspend.

The proportion of net expenditure that is represented by staff costs has dropped significantly in 2012/13 to 54% from 90% in 2011/12, as Monitor incurred significant expenditure on external advice to both research and develop the new areas of our role as sector regulator for health care services. In 2012/13 external consultancy expenditure was £12.5 million. This included £4.1 million for contingency planning teams for failing foundation trusts. This is a new area of expenditure for Monitor as a result of the 2012 Act. More details on the contingency planning work can be found elsewhere in this report. Property and office costs have also increased as Monitor has taken on more staff and moved to a second location in the short term before all staff move to a single office in 2013/14.

Grant-in-aid of £46,600,000 was received during the year of which £727,000 was applied to the purchase of fixed assets. Net assets at 31 March 2013 were £5,476,000 (31 March 2012: £1,579,000).

A comprehensive review of Monitor's activities and performance against business objectives during the year is set out on pages 37-45 of this report.

Annual governance statement 2012/13

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

Ahead of Monitor taking on its new functions from 1 April 2013, the organisation's governance framework changed significantly on 1 November 2012. This statement reflects these changes.

Board of Monitor
Board composition
Until 1 November 2012, the composition of Monitor's Board was in full compliance with the provisions of the National Health Service Act 2006, which states that the regulator is to consist of a number of members (but not more than five) appointed by the Secretary of State. One of the members must be appointed as chair and another as deputy chair.

The Board has been at its full complement of four non-executive directors and a chair since 1 January 2012. David Bennett continues in the role of chair; Stephen Thornton remains in the role of deputy chair and non-executive director. Sigurd Reinton joined as non-executive director from 1 January 2012. Chris Mellor ceased being a non-executive director on 31 March 2012 at the end of his second term of appointment and was replaced by Keith Palmer on 1 April 2012. Non-executive director Jude Goffe left the Board at the end of her second term of appointment on 7 May 2012 and was replaced on 1 July 2012 by Heather Lawrence.

On 1 November 2012 the composition of Monitor's Board was changed to reflect the requirements of the Health and Social Care Act 2012. This stipulates that, in addition to a chair and at least four non-executive directors appointed by the Secretary of State, the chief executive and other executive directors should be Board members. The number of executive members must be less than the number of non-executive members.

On 1 November 2012 Stephen Hay, Managing Director of Provider Regulation, and Adrian Masters, Managing Director of Sector Development, joined the Board as executive directors. David Bennett was appointed as chief executive with effect from 1 November 2012 and continues as chair of the Board until the Secretary of State appoints a replacement. It is anticipated that this will be in the summer of 2013.

No individual or group of individuals dominates the Board's decision making. Collectively, the non-executive directors bring a valuable range of experience and expertise as they all currently occupy, or have occupied, senior positions in the health care sector, in the commercial sector and in public life.

With the exception of the David Bennett, Stephen Hay and Adrian Masters, members of Monitor's Executive Committee (ExCo) are not members of the Board,

but they attend Board meetings as a matter of routine and make presentations on pertinent matters arising from their respective directorates.

The role of the Board
The role of the Board is to lead the organisation, by setting its strategy (including the organisation's vision, mission, values) and agreeing the framework within which operational decisions will be taken.

The Chair and the Chief Executive
The chair of the Board is appointed by the Secretary of State for Health. The chief executive is appointed by the Board and is a Board member. The appointment of the chief executive and other executive members of the Board is subject to the consent of the Secretary of State.

David Bennett has been chair since 1 March 2011.

The role of the chair of the Board is to:

1. Provide effective leadership and management of Monitor's Board;
2. Ensure that Monitor's Board, as a whole, plays a full and constructive part in the development and determination of Monitor's strategy and overall objectives;
3. Act as the guardian of Monitor's Board decision-making processes;
4. Ensure that Monitor's Board has the information and advice needed to discharge its statutory duties; and
5. Ensure that there is effective communication by Monitor with its stakeholders, including by the chief executive and other ExCo members, and that members of Monitor's Board develop an understanding of Monitor's major stakeholders.

David Bennett was appointed Interim chief executive on 1 March 2010. The Board met without David Bennett on 12 October 2012, and agreed that he should be appointed to the permanent role of Monitor's chief executive. He will step down as Monitor's chair once the Secretary of State has appointed a replacement.

The role of the chief executive is to:

1. Provide leadership and management of Monitor as an organisation, including its staff and work programmes;
2. Propose and develop Monitor's strategy and overall objectives, in close consultation with the chair and the rest of Board;
3. Promote and conduct the affairs of Monitor with the highest standards of integrity, probity and corporate governance;
4. Lead Monitor's communications programme with stakeholders, jointly with the chair

The Board recognises the importance of clearly setting out the division of responsibilities between the chief executive and the chair of the Board. It has agreed a statement of the division of responsibilities between the chair and the chief executive. Whilst David Bennett acts as both chief executive and chair, this document identifies the responsibilities attached to each of those roles, but also how he will fulfil these responsibilities.

The non-executive directors

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

Terms of appointment
Jude Goffe started her second four year term of appointment on 8 May 2008. She left Monitor on 7 May 2012. Stephen Thornton was reappointed for a second four year term of appointment on 1 October 2009. He will leave the Board on 30 September 2013. Sigurd Reinton was appointed to the Board from 1 January 2012. Keith Palmer began his term of appointment on 1 April 2012. Heather Lawrence joined the Board on 1 July 2012. All of these new non-executive directors were appointed for a term of four years.

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

Deputy Chair and Senior Independent Director
Stephen Thornton has occupied the positions of deputy chair and senior independent director since 1 April 2012.

The principal responsibilities of Monitor's senior independent director are to:

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

How the Board operates

Monitor, Independent Regulator of NHS Foundation Trusts, came into being under the provisions of the Health and Social Care (Community Health and Standards) Act 2003. The Health and Social Care Act 2012 (the 2012 Act) established that the body corporate known as the Independent Regulator of NHS Foundation Trusts is to continue to exist and is to be known as Monitor. The 2012 Act also established Monitor as the sector regulator for health, with a primary duty to protect and promote the interests of people who use health care services by promoting provision of health care services which is:

(a) economic, efficient and effective; and
(b) maintains or improves the quality of services.

In the exercise of powers under paragraph 10(1) of Schedule 8 to the 2012 Act, Monitor has made the Rules of Procedure to establish a Board and to regulate its procedures and that of its Committees. The Rules of Procedure are published on Monitor's website.

Reserved and delegated authorities
In order to discharge its duties effectively, the Board must determine the scope of its activities and the areas of the organisation to which it will assign high priority. This "job description" for the Board is set out in the Matters Reserved to the Board (Annex C to Monitor's Rules of Procedure), which reflect the Board's priorities and determine the extent of its intended direct involvement in particular areas of the organisation.

The Matters Reserved to the Board include:

- The establishment and maintenance of Monitor's strategic direction – reviewing, contributing to and approving Monitor's vision, mission and values;

- The approval of Monitor's corporate and business plans, including the distribution of Monitor's financial allocation as set out in the annual business plan and any subsequent material change to this;

- The approval of Monitor's risk management strategy/framework, including the determination of Monitor's risk appetite;

- The approval of all of Monitor's significant regulatory policies prior to consultation with stakeholders and any material amendments following responses received in response to consultation; and

- The determination of any operational decision considered to be policy-determining (ie, having strategic implications) and/or very high risk.

Whilst the Matters Reserved to the Board reflects the Board's priorities and the matters in which it intends to be actively involved, it also delineates the areas which the Board considers it appropriate to delegate authority to others, including Board committees, the chief executive and other executives. To ensure clear lines of accountability between the Board and the Executive, Monitor has a Scheme of Delegation (Annex D to the Rules of Procedure). The Scheme of Delegation reflects the job descriptions of Monitor's senior executives and follows from the Matters Reserved to the Board.

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

The Board has given consideration to the information that it needs in order to carry out its duties and has agreed the following classification:

1. Information required for specific policy decisions;
2. Information required for specific (high risk/policy-determining) operational decisions;
3. Information required for specific decisions on individual matters reserved to the Board;

4. Information required for the monitoring of Monitor's performance and its management of risk;
5. Information about the performance of and challenges faced by the health care sector in general and the NHS foundation trust sector in particular and the impact of Monitor;
6. Information about the exercise of authority delegated by the Board to the Executive; and
7. Other information.

Board members have given specific consideration to the nature and quality of information required in each of these categories and confirmed that the information they receive is appropriate to ensure that they are kept fully up to date on the issues arising which affect Monitor.

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

Secretary to the Board
The Secretary to the Board is responsible for:

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

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

Board meetings and attendance
The attendance of the chair, individual non-executive directors and ExCo members at Board and Committee meetings during 2012/13 was as follows:

Name	**Board** Max. 15 mtgs	**Audit and Risk Committee** Max 7 mtgs	**Compliance Board Committee+** Max. 4 mtgs	**Controls Committee** Max. 41 mtgs	**Remuneration Committee** Max. 3 mtgs
David Bennett	14	7	3	34	2
Jude Goffe*	1	N/A	N/A	N/A	N/A
Heather Lawrence**	11	N/A	2	N/A	1
Keith Palmer	14	7	N/A	N/A	3
Sigurd Reinton	14	7	2	N/A	N/A
Stephen Thornton	12	N/A	4	N/A	3
Miranda Carter***	5	N/A	N/A	N/A	N/A
Catherine Davies***	7	N/A	N/A	N/A	N/A
Stephen Hay	13	7	4	34	1
Adrian Masters	13	6	1	34	N/A
Kate Moore	13	N/A	4	N/A	N/A
Sue Meeson	13	N/A	3	N/A	N/A

+ The Compliance Board ceased to exist on 1 November 2012.

*Jude Goffe left Monitor on 7 May 2012.

**Heather Lawrence joined Monitor on 1 July 2012, in June 2012 she acted as a shadow Non Executive Director. She joined the Remuneration and Nominations Committees on 1 November 2012.

***Miranda Carter and Catherine Davies joined the ExCo on 1 November 2012.

There were no Honours Committee meetings in 2012/13. This Committee ceased to exist on 1 November 2012.

There were no Nominations Committee meetings in 2012/13.

Board effectiveness

Induction

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

All non-executive directors who joined the Board in 2012/13, received detailed induction information about Monitor, its structure, operations and corporate governance. Meetings were arranged with members of the ExCo and other key senior members of staff. A visit to an NHS foundation trust was also arranged.

Performance evaluation

The Board sets objectives for both the chair and the chief executive. The chair sets objectives for individual Board members.

In 2012 the Board met informally to discuss how individual Board members should be appraised in the future. Upon being appointed chief executive, David Bennett stepped away from the appraisal of Board members.

The chief executive sets objectives for the ExCo against the objectives set for the Board and in relation to the delivery of the business plan for 2012/13.

The Board has asked its internal auditors to lead on a self assessment to evaluate its performance, the outcome of which it will discuss in the Autumn of 2013. The appointment of a new chair is awaited before any further performance evaluation is undertaken.

Board Committees

The terms of reference of all the committees are reviewed on a regular basis (at least annually) by the Secretary to the Board and by the Board as appropriate. Monitor made significant changes to its corporate governance framework with effect from 1 November 2012, to reflect the fact that it had a unitary Board as a matter of law from that date and in anticipation of its new statutory functions from 1 April 2013. This included changes to the Rules of Procedure and Committee Terms of Reference, to ensure that they reflected best practice.

Audit and Risk Committee

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

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

replacement independent member and it is anticipated that this process will be completed in the summer of 2013.

At the invitation of the Committee, the chief executive (in his capacity as Monitor's accounting officer); the managing director of provider regulation; the managing director sector development; the director of finance reporting, the head of internal finance; the head of internal audit (KPMG); and the external auditor (NAO) attend meetings.

The Secretary to the Board attends Audit and Risk Committee meetings and acts as Secretary to the Committee. The Committee met seven times in the 2012/13 financial year. There have been no occasions on which either the internal auditor or external auditor have requested a private session with the Committee. All non-executive directors have access to the minutes of all the committee's meetings. A report is presented to the Board by the Chair of the Committee following each Audit and Risk Committee meeting.

Key duties of the Committee include:

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

Highlights of the Committee's work in 2012/13 include:

- Considering Monitor's accounts and annual report, including reviewing the accounts, annual report and annual governance statement before submission for audit, together with any issues arising from the audit of the accounts;
- Reviewing the quality of the risk management within Monitor, together with regular review at teach meeting of the organisation's risk register relating to both business as usual and transition-related risks;
- Considering the accountability arrangements established to support the Accounting Officer; and
- Estaboushing Monitor's arrangements to respond to the findings of external and internal audit.

For the 2012/13 financial year, the internal auditors undertook the following reviews as part of the plan approved by the Audit and Risk Committee:

a) Corporate Governance
b) Financial Systems;
c) Human Resources;
d) Assessment; and
e) Provider Regulation.

Nominations Committee
Members: from 1 April 2012 until 1 November 2012: David Bennett (Chair of the Committee in his capacity as chair of the Board) and Stephen Thornton.
From 1 November: Heather Lawrence (Chair of the Committee), David Bennett (in his capacity as chief executive) and Stephen Thornton.
Janet Polson (Director of Human Resources and Corporate Services) normally attends meetings at the invitation of the Committee.

The Nominations Committee leads the process for Board appointments, by evaluating the balance of skills, knowledge and experience amongst existing Board members and agreeing, for submission to Ministers, a description of the role and capabilities required for particular appointments. The Nominations Committee also takes the lead on succession planning for the Board.

The Committee did not meet in 2012/13. It met early in 2013/14 to consider the appointment of a new Chair and new non-executive directors, as well as the implementation of a Board evaluation.

Remuneration Committee
Members: from 1 April 2012 until 1 November 2012: Stephen Thornton (Chair of the Committee) and Keith Palmer.
From 1 November 2012: Stephen Thornton (Chair of the Committee), Heather Lawrence and Keith Palmer.

Details of the Remuneration Committee and its policies, together with the directors' remuneration and emoluments are set out on pages 77-82.

Compliance Board Committee
Members: From 1 April 2012 until 1 November 2012: Stephen Thornton (Non-Executive Director, Chair of the Committee), Sigurd Reinton (Non-Executive Director member until 1 July 2012), Heather Lawrence (Non-Executive Director member from 1 July 2012), Stephen Hay (Chief Operating Officer), Adrian Masters (Director of Strategy and Transition Director), Kate Moore (Director of Legal Services), Sue Meeson (Director of Public Affairs and Communications), Merav Dover (Compliance Director), and Richard Guest (Mergers and Acquisitions and Restructuring Director).

The Committee was established in February 2010 to report to Monitor's Board following consideration of individual cases of potential significant breaches of an NHS foundation trust's terms of authorisation and assessment of the risk of significant transactions involving NHS foundation trusts. This Committee ceased to exist on 1 November 2012 with the adoption of Monitor's new governance framework.

Honours Committee
Members: from 1 April 2012 until 1 November 2012: David Bennett (Chair of the Committee in his capacity as Chair of the Board), Sigurd Reinton and Stephen Thornton.

The role of the Committee was to consider nominations made by NHS foundation trusts for Honours to be conferred in the Queen's New Year and Birthday lists. This Committee did not meet in 2012/13 and ceased to exist on 1 November 2012 with the adoption of Monitor's new governance framework.

Controls Committee
Members: from 1 April 2012: David Bennett (Chair of the Committee in his capacity as Chief Executive), Stephen Hay (Chief Operating Officer) and Adrian Masters (Director of Strategy and Transition Director).

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

Attendance at Board Committee meetings is shown on page 62.

Executive committees
Monitor's senior executives met regularly from April 2012 to 1 November 2012 as a Management Committee, a Strategy Committee and a Transition Committee. Each Committee generally met monthly (with the exception of August). The Strategy Committee had an additional meeting each quarter to discuss risk. The Compliance Executive Committee with senior executive membership also met on a weekly basis, to consider operational compliance issues and to refer cases of potential significant breach and significant transactions to the Compliance Board Committee.

From 1 November 2012 Monitor established a number of executive committees to take the significant operational decisions that the Board had not reserved to itself and for considering the development of policy for recommendation to the Board. Key amongst these is the Executive Committee (ExCo). The ExCo is made up of the Executive Board members and other direct reports to the chief executive, who is the Chair of the Committee. Alongside the ExCo are four other executive committees mirroring Monitor's regulatory functions. Each of these is chaired by the chief executive, with membership consisting of the relevant ExCo members.

The Provider Regulation Executive focuses on the operation of a rigorous fit-for purpose regulatory regime through monitoring the performance of all licensed providers of NHS funded services (to date NHS foundation trusts only) of their obligations under the provider licence. It takes decisions on provider-related interventions and enforcement.

The Assessment Executive focuses on decisions relating to NHS trust applications to become NHS foundation trusts. Should a decision on an application be considered to be policy-determining and/or high-risk, the Assessment Executive will refer it to the Board.

The Pricing Executive focuses on the development and implementation of a coherent, long term pricing strategy to deliver appropriate benefits to patients, including production of the annual National Tariff. Joint design with NHS England is managed through the Joint Pricing Executive, which has membership from both organisations.

The Cooperation and Competition Executive focuses upon establishing and maintaining transparent, effective principles and procedures for managing competition complaints and investigating cases. It receives advice from the Cooperation and Competition Panel members on particular cases.

Executive Committee meetings and attendance
The attendance of senior executives at Executive Committee meetings during 2012/13 is as follows:

Name	Mgmt Cttee*	Strategy Cttee*	Trans Cttee*	ExCo**	Assess Exec+	Co-op & Comp Ctte+++	Pricing Exec++	Provider Reg Exec**
David Bennett	N/A	5	6	11	4	1	3	6
Miranda Carter~	N/A	5	6	10	4	N/A	1	6
Catherine Davies	N/A	N/A	N/A	9	N/A	1	N/A	N/A
Stephen Hay	3	5	5	10	4	N/A	N/A	6
Adrian Masters	5	3	5	11	3	1	3	5
Kate Moore	5	4	6	9	4	N/A	N/A	6
Sue Meeson	5	5	5	11	N/A	N/A	N/A	N/A

* The Management Committee, Strategy Committee and Transition Committee ceased to exist on 1 November 2012.

** The Executive Committee and the Provider Regulation Executive came into existence in November 2012.

+ The Assessment Executive came into existence in December 2012.

++ The Pricing Executive came into existence in February 2013.

+++ The Cooperation and Competition Executive came into existence in March 2013.

~ Miranda Carter joined the Pricing Executive in March 2013.

Senior executives' attendance at meetings of Monitor's Board and its committees is shown above.

External directorships for ExCo members
Subject to certain conditions, and unless otherwise determined by the Board, ExCo members are permitted to accept one appointment as a Non Executive Director.

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

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

Adrian Masters is the Treasurer of PACT (Prisoners' Advice and Care Trusts), a national charity which supports people affected by imprisonment. The position is unpaid.

Relationships with stakeholders
Stakeholder engagement
Monitor meets key stakeholders on a regular basis to discuss matters relating to NHS foundation trust policy and broader questions on health reform. Monitor is usually represented by the chair and interim chief executive, managing director of provider regulation and the managing director of sector development.

During 2012/13, regular meetings were held with a number of organisations and individuals, including ministers, special advisers and senior officials from the Department of Health, the Foundation Trust Network, chairs, chief executives and finance directors of NHS foundation trusts, the CQC, the NHS Trust Development Authority, the NHS Commissioning Board and the National Audit Office.

The Board hosted the following stakeholders at Board meetings throughout 2012/13:

- Andrew Dillon, Chief Executive, National Institute for Health and Clinical Excellence (NICE);
- Charles Alessi, Chair, National Association of Primary Care;
- Mike Farrar, Chief Executive, NHS Confederation;
- Ciaran Devane, Chief Executive, Macmillan Cancer Support; and
- David Flory, Chief Executive, NHS Trust Development Agency.

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

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

Code of Good Practice for Corporate Governance in Central Government Departments, NHS Foundation Trust Code of Governance and *UK Corporate Governance Code*
The *NHS Foundation Trust Code of Governance* was first published in 2006. Following reviews of its application in 2008 and 2009, and also taking account of

more recent developments in governance practices specific to NHS foundation trusts, we published a revised code in March 2010. Building on the principles and provisions of the *UK Corporate Governance Code* and the *Code of Good Practice for Corporate Governance in Central Government Departments* issued in 2011, the *NHS Foundation Trust Code of Governance* is designed to assist NHS foundation trusts in improving their governance by bringing together the best practice of both public and private sector governance.

Monitor reviews its compliance against the *Code of Good Practice for Corporate Governance in Central Government Departments*, the *UK Corporate Governance Code* and the *NHS Foundation Trust Code of Governance*. Where they are applicable to Monitor, Monitor has complied with the main principles of each of these codes during the period 1 April 2012 to 31 March 2013, except for:

NHS FT Code of Governance	**UK Corporate Governance Code**	**Corporate governance in central government departments**	**Monitor position**
A.2.2 *The chair should on appointment meet the independence criteria set out in A.3.1. A chief executive should not go on to be chair of the same NHS foundation trust.*	**A.2.1** *The roles of chair and chief executive should not be exercised by the same individual. The division of responsibilities between the chair and chief executives should be clearly established, set out in writing and agreed by the board.*		The appointment of Dr David Bennett as Chair with effect from 1 March 2011 was made by the Secretary of State for Health and was not a matter for the Board. The Board has agreed a formal statement of how Dr Bennett will exercise his duties whilst he continues to act as interim Chief Executive as well as Chair.
	A.3.1 *The chair should on appointment meet the criteria set out in B.1.1. A chief executive should not go on to be chair of the same company.*		
C.2.1 *All other Executive Directors should be appointed by a Committee of the*	**B.7.1** *All directors of FTSE 350 companies should be subject to annual*		Monitor's Executive Directors were appointed by the Board,

NHS FT Code of Governance	UK Corporate Governance Code	Corporate governance in central government departments	Monitor position
Chief Executive, the Chair and non executive directors.	*election by shareholders.*		rather than its Nominations Committee, as part of the determination of Monitor's organisation design and the appointments approved by the Secretary of State for Health.
	B.7.2 *The board should set out to shareholders in the papers accompanying a resolution to elect a non executive director why they believe an individual should be elected.*		
E.2.1 *The Board of directors must establish a remuneration committee composed of non executive directors which should include at least three independent non executive directors.*	**D.2.1** *The Board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non executive directors.*		Monitor's Remuneration Committee comprised two independent non executive directors until 1 November 2012, when a third non executive director was added to the membership of the committee.
F.3.1 *The Board must establish an audit committee composed of non executive directors which should include at least three independent non executive directors.*	**C.3.1** *The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non executive directors*	**5.9** *The board and accounting officer should be supported by an audit and risk assurance committee, comprising at least three members.*	Monitor's Audit and Risk Committee comprises two independent non executive directors, and one independent member. The independent member resigned from the Committee in June 2012

NHS FT Code of Governance	UK Corporate Governance Code	Corporate governance in central government departments	Monitor position
			and is in the process of being replaced.
F.3.6 *The NHS foundation trust should appoint an external auditor for a period of time which allows the auditor to develop a strong understanding of the finances, operations and forward plans of the organisation.*	**C.3.6** *The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor*		Given the statutory composition of Monitor, the National Audit Office acts as its external auditor.

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

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

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

The system of internal control has been in place in Monitor for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

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

The principal risks facing Monitor during 2012/13
The overarching issue we face in carrying out our regulatory activities remains the need to strike the right balance between the risk of not identifying issues and regulatory burdens. In preparing our 2012/13 business plan, we took account of the highest-rated risks to delivering our strategies and goals relating to our current functions and responsibilities, and how they would be mitigated. The most significant risks to each strategy area in our 2012/13 business plan are set out below.

In managing and mitigating our identified risks, Monitor works closely with the Department of Health and the Care Quality Commission, where appropriate, to ensure an integrated approach across the whole healthcare system. During 2012/13 we also began working with NHS England and the NHS Trust Development Authority.

Operating a rigorous assessment process
Monitor's business plan identified that delivery of the Department of Health's objective that all NHS trusts should achieve foundation trust status remained a significant risk for Monitor in 2012/13. The continued slow pace of applicants in 2012/13 demonstrated the difficulty in delivering a pipeline of applicants of the right quality to meet our authorisation criteria. We welcomed the Government's commitment to developing trajectories for all eligible acute, mental health, ambulance and community trusts to apply for NHS foundation trust status. We contributed to managing this risk by working with the Department of Health, Strategic Health Authorities and the Foundation Trust Network to support an effective preparation programme for high-quality applicant trusts, a pilot three-week early assessment process to identify any material issues at applicants and the sharing of lessons from previous applications. Working with the NHS Trust Development Authority, we ensured that Monitor received suitable notice of applicants coming through the pipeline and there was appropriate phasing to ensure that we could assess applicants in a timely fashion following their referral to us. We used the review of assessment undertaken in 2011/12 to fine-tune our assessment process and ensure it remained fit for purpose in 2012/13. We continued to maintain the assessment bar.

Operating a proportionate, risk-based regulatory regime
As NHS funding has become more constrained, Monitor's business plan identified a corresponding risk in 2012/13 that there would be an increasing number of complex regulatory issues and potentially more NHS foundation trusts in significant breach of their terms of authorisation. NHS foundation trusts had to plan more effectively, deal with increased financial risk and continue to deliver high-quality services. We considered that making the required efficiencies on a much larger scale than previously achieved was likely to require service reconfiguration in some cases, and

some operating models of healthcare provision might need to be revised. This in turn would require the engagement of local commissioners, who could have been distracted by reforms to the commissioning architecture. We ensured that Monitor's compliance regime continued to develop to support early identification of risk and that our escalation and intervention processes continued to be robust and able to handle any increase in failure. We continued to support this through strong networks and relationships with our key partners. In addition to ensuring NHS foundation trusts were well run and financially viable, we also continued to work together with the Care Quality Commission to ensure that they met essential standards of quality and patient safety.

The 2012 Act meant that the statutory basis of Monitor's NHS foundation trust oversight role changed in 2013. Throughout 2012/13 we prepared a new licensing regime to reflect this role, engaging and consulting extensively.

Promoting the development of well-led NHS foundation trusts
Monitor's business plan noted that the savings required over the next three years, with an effective tariff reduction, are very challenging. Some boards of NHS foundation trusts have encountered difficulties with the extent of this challenge, while planning and delivering simultaneous improvements in both care quality and efficiency. In addition, there is the ongoing risk that not all governors fully understand their statutory responsibilities; have the ability to identify material issues or the confidence to take action. We continued to work with partners to develop tools and training materials to support both executive and non executive directors in building their trust's capacity to lead improvements in quality and productivity, for example through the service-line management approach. We also continued to support governor development.

Contributing to and influencing the development of an affordable, devolved system of healthcare provision
Despite the Government's recommitment to a devolved health care system, Monitor's business plan identified a risk that operating pressures might hinder the achievement of this goal in 2012/13. Some commissioners might have been unable to manage demand effectively and pay appropriately for activity, transferring financial risk to providers. Pressures arising from using the rules-based tariff might have led to more local flexibilities, and the tariff itself might have been subject to changes leading to unanticipated financial challenges. Additionally, capital expenditure controls might have restricted NHS foundation trusts' financial freedoms. We continued to work effectively with partners and contribute to the development of policies that we believed were a priority for a devolved health care system. This included strengthening the quality framework and work on further development of robust and appropriate pricing for services.

Continuing to improve as a high-performing organisation
Monitor highlighted in its business plan that it expected to see greater challenges in its NHS foundation trust regulatory role in 2012/13. Resourcing reflected the anticipated increasing number of applicants and transactions in assessment and the greater volume and complexity of compliance activity. It was possible that some support staff might have been affected by the Department of Health's shared services initiative; without adequately robust governance arrangements, participation in this programme could have resulted in reduced service quality at increased cost. We engaged our staff in change processes to guard against possible adverse

effects on retention and staff morale. We provided more personal and professional development options for our staff, allowing us to continue to attract and retain high-quality and highly-motivated people as we moved towards delivering our new functions. Additionally, we ensured appropriate staffing for both our compliance and assessment functions and sought to understand and mitigate the potential impact of the shared support services programme. Restrictions on recruiting staff and sourcing expert support meant that there was little flexibility to mitigate the risk of Monitor's dependency on a small number of executives.

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

Capacity to handle risk

Monitor's Board has overall responsibility for ensuring delivery of Monitor's strategies and goals as outlined in the 2012/13 Business Plan. When setting these strategies and goals, the Board considers Monitor's specific statutory functions as outlined in legislation and Board members' wider understanding of the health care system (the latter being informed by Board workshops).

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

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

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

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

Review of effectiveness

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

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

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

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

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

Monitor seeks to ensure its ongoing effectiveness by reviewing the actions that it has taken and learning from these in order to determine how its methods and processes could be improved. In the past Monitor has used KPMG, as the organisation's internal auditors, to undertake independent reviews of the learning and implications of:

- the significant failings in quality of care at Mid Staffordshire NHS Foundation Trust (2009);
- the significant financial challenges faced by Peterborough and Stamford Hospitals NHS Foundation Trust (2012); and

- the significant failings in the quality of care and overall governance at University Hospitals of Morecambe Bay NHS Foundation Trust (2012).

Monitor will continue to ensure that it learns from any other independent reviews that might have implications for its processes and decision-making. An example of this is the Board's consideration of implications for Monitor's regulatory processes of the review undertaken by Grant Thornton of CQC's handling of issues relating to University Hospitals of Morecambe Bay NHS Foundation Trust. Further work will be undertaken with both CQC and the NHS TDA in 2013/14 to address this in more detail.

Throughout 2012/13 Monitor has continued to implement the recommendations from these independent reviews. This was demonstrated in its response to the findings of the Mid Staffordshire NHS Foundation Trust Public Inquiry where Monitor was able to demonstrate that it had learnt from its mistakes in relation to this trust and already made significant changes to the way in which it worked as a result of what had happened.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems for 2012/13. As Monitor's accounting officer, I have gained assurance over the adequacy of Monitor's internal control environment during the period before my appointment from individual assurances given to me by each member of the ExCo as to the adequacy of the internal control environment within their own directorate.

Dr David Bennett
Chair and Chief Executive
2 July 2013

Remuneration report

Remuneration policy

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

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

Service contracts

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

On 1 November 2012 David Bennett was appointed as permanent chief executive of Monitor. However since that date he has continued to hold the position of chair and will do so until a permanent appointment is made.

With effect from 1 April 2012 Keith Palmer was appointed as a non-executive director for a term of four years. Heather Lawrence was appointed with effect from 1 July 2012 for the same length of service.

Jude Goffe's appointment as a non-executive director finished on 7 May 2012, which was the end of two consecutive four year terms served on Monitor's Board.

Notice periods and termination costs

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

	Notice period
David Bennett Chief Executive	6 months
Stephen Hay Managing Director of Provider Regulation	6 months
Adrian Masters Managing Director of Sector Development	6 months
Kate Moore Executive Director of Legal Services	3 months
Sue Meeson Executive Director of Strategic Communications	3 months
Miranda Carter Executive Director of Assessment	3 months
Catherine Davies Executive Director of Cooperation and Competition	3 months

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's Executive Team and Board. These figures have been audited. Senior managers are salaried and are entitled to annual pay progression subject to individual performance against objectives. From 2011/12 Monitor entered a two year pay freeze. During this period entitlements to pay progression remain, but are suspended for the two years.

As a result of Monitor's new role, the governance structures have been revised and several executive roles have changed (with effect from 1 November 2012 unless stated otherwise below). Further information on Monitor's new role can be found elsewhere in this report.

Executive Team	**2012/13 Salary £'000**	**2011/12 Salary £'000**
David Bennett Chief Executive Note: David Bennett does not receive an additional salary as chair while also serving as chief executive, and he also does not receive a pension	220-225 *(235-240 full time equivalent)*	220-225 *(240-245 full time equivalent)*
Stephen Hay Managing Director of Provider Regulation (previously Chief Operating Officer)	190-195*	185-190
Adrian Masters Managing Director of Sector Development** (previously Director of Strategy)	150-155	145-150
Kate Moore Executive Director of Legal Services	125-130	125-130
Sue Meeson Executive Director of Strategic Communications** (previously Director of Public Affairs and Communications)	95-100	90-95
Miranda Carter Executive Director of Assessment (appointed with effect from 1 November 2012)	50-55	n/a
Catherine Davies Executive Director of Cooperation and Competition (appointed with effect from 1 October 2012)	60-65	n/a
Janet Polson Director of HR and Corporate Services (until 31 October 2012)***	50-55	85-90

* Stephen Hay's remuneration includes a payment for untaken annual leave of £0-5,000 which was non-pensionable.
** These roles were considered to have sufficiently increased responsibilities to merit a pay increase. Both the new roles were occupied from 1 November 2012.
*** Janet Polson continues to occupy this role, however from 1 November the role ceased to be an Executive position. A new post of Executive Director of Organisation Transformation has been vacant since then.

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

The banded remuneration of the highest-paid director in Monitor as at 31 March 2013 was £225-230,000 (31 March 2012, £240-245,000). This was 3.8 times (31 March 2012, 4.1) the median remuneration of the workforce as at 31 March 2013, which was £60,000 (31 March 2012, £60,575).

The median remuneration figures only include permanent staff on payroll. Agency staff costs have not been included as such staff generally occupy short-term, project related positions and so their inclusion would artificially skew the overall figure.

In 2012/13, zero (2011/12, zero) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20-25,000 to £220-225,000 (2011/12 £20-25,000 to £240-245,000).

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

The ratio between the highest paid director and the median remuneration of the workforce fell from the previous year as the highest paid director's remuneration was reduced from November 2012 so this has impacted on the ratio. During 2012/13 a number of staff have been recruited at around the average salary of the organisation and this has also contributed to the decrease.

Chair and other non-executive directors	**2012/13 Remuneration £'000**	**2011/12 Remuneration £'000**
David Bennett Chair Note: David Bennett does not receive a salary as chair in addition to that which he receives as chief executive.	0	0
Christopher Mellor Non-executive director (term ended 31 March 2012)	N/A	35-40
Jude Goffe Non-executive director (term ended 7 May 2012)	0-5	20-25
Stephen Thornton Non-executive director	20-25	25-30
Sigurd Reinton Non-executive director	15-20	0-5
Keith Palmer Non-executive director	5-10	0-5
Heather Lawrence Non-executive director (appointed with effect from 1 July 2012)	5-10	N/A

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

Executive Team, chair and other non-executive directors	2012/13 Benefit in Kind £*	2011/12 Benefit in Kind £*
David Bennett Chief Executive	100	100
Stephen Hay MD of Provider Regulation	0	100
Adrian Masters MD of Sector Development	0	200
Christopher Mellor Non-executive director	N/A	4,300
Stephen Thornton Non-executive director	3,500	3,300
Keith Palmer Non-executive director	100	N/A
Sigurd Reinton Non-executive director	1,400	N/A
Heather Lawrence Non-executive director	400	N/A
Jude Goffe Non-executive director	300	1,200

*Figures are given to the nearest £100.

Pension benefits	**Accrued pension at age 60 as at 31/03/13 £'000**	**Real increase in pension**	**CETV* at 31/03/12** £'000**	**CETV* at 31/03/13 £'000**	**Real increase in CETV* £'000**
Stephen Hay Managing Director of Provider Regulation	25-30	2.5-3	320	373	25
Adrian Masters Managing Director of Sector Development	20-25	3-3.5	277	339	33
Kate Moore Executive Director of Legal Services	15-20	2.5-3	233	286	33
Sue Meeson Executive Director of Strategic Communications	5-10	2.5-3	80	127	24
Miranda Carter Executive Director of Assessment (from 1 November 2012)	15-20	0.5-1	212	223	6
Janet Polson Director of HR and Corporate Services (until 31 October 2012)	40-45	2-2.5	642	691	39

* Cash equivalent transfer value

** The actuarial factors used to calculate CETVs were changed in 2012/13. The CETVs at 31/3/12 and 31/3/13 have both been calculated using the new factors, for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

David Bennett does not receive a pension on his salary as chief executive.

Catherine Davies, executive director of Cooperation and Competition, is a member of a partnership pension scheme. From her start date of 1 October 2012 she made contributions to the scheme of £1,500, and Monitor made contributions of £8,800 on her behalf (figures given to the nearest £100).

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

Details of off-payroll engagements

As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, Monitor published information in relation to the number of off-payroll engagements – at a cost of over £58,200 per annum – that were in place on 31 January 2012. The following information provides further disclosures concerning these engagements.

As at 31 January 2012 Monitor had two off-payroll engagements at a cost of over £58,200 per annum. Both of these arrangements ceased in March 2013.

There have been no new off-payroll engagements entered into between 23 August 2012 and 31 March 2013, for more than £220 per day and more than six months. None of the Executive Committee members are engaged through off-payroll arrangements.

Civil Service pensions

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

Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with Pensions Increase legislation. Employee contributions are salary-related and ranged between 1.5% and 3.9% of pensionable earnings for Classic and 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as Classic.

The Nuvos scheme was introduced on 30 July 2007 for all new staff unless they are already members of or eligible to rejoin the other schemes. Members of Nuvos build up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Consumer Price Index (CPI). In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

Further details about the Civil Service pension arrangements can be found on the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. The CETV is the amount paid by one pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when a pension scheme member leaves and chooses to transfer the benefits accrued from their previous scheme.

The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

Real increase in CETV

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

Dr David Bennett
Chair and Chief Executive
2 July 2013

Statement of accounting officer's responsibilities

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

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

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

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Monitor for the year ended 31 March 2013 under the Health and Social Care Act 2012. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor
As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Health and Social Care Act 2012. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

Opinion on financial statements
In my opinion:

- the financial statements give a true and fair view of the state of Monitor's affairs as at 31 March 2013 and of the net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Health and Social Care Act 2012 and Secretary of State directions issued thereunder.

Opinion on other matters
In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Health and Social Care Act 2012; and
- the information given in the "Board", "Senior Management Team", "Management Report", "Sustainability Report" and "Financial Position" sections included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

Report
I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

4 July 2013

Statement of comprehensive net expenditure for the year ended 31 March 2013

	Note	year ended 31/03/13 £000's	£000's	year ended 31/03/12 £000's	£000's
Expenditure					
Staff costs	3	(22,861)		(13,844)	
Amortisation/Depreciation	4	(436)		(395)	
Other expenditures	4	(19,646)		(9,433)	
Total expenditure			(42,943)		(23,672)
Income					
Miscellaneous income	5		240		8,134
Net expenditure			(42,703)		(15,538)
Comprehensive net expenditure for the year			(42,703)		(15,538)

All operations are continuing.

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

The notes on pages 90 to 105 form part of these accounts.

Statement of financial position
as at 31 March 2013

	Note	31/03/13 £000's	31/03/13 £000's	31/03/12 £000's	31/03/12 £000's
Non-current assets					
Intangible assets	7a		102		118
Property, plant and equipment	7b		1,119		812
Total non-current assets			1,221		930
Current assets					
Trade and other receivables	8	966		759	
Cash and cash equivalents	9	11,977		8,056	
Total current assets			12,943		8,815
Total assets			14,164		9,745
Current liabilities					
Trade and other payables	10	(8,366)		(7,785)	
Provisions for liabilities and charges	12	(309)		0	
Total current liabilities			(8,675)		(7,785)
Non-current assets plus net current assets			5,489		1,960
Non-current liabilities					
Financial liabilities	11	(13)		(72)	
Provisions for liabilities and charges	12	0		(309)	
Total non-current liabilities			(13)		(381)
Assets less liabilities			5,476		1,579
General reserve			5,476		1,579

The notes on pages 90 to 105 form part of these accounts.

Dr David Bennett
Chair and Chief Executive
2 July 2013

Statement of comprehensive net expenditure
Statement of cash flows for the year ended 31 March 2013

	Note	year ended 31/03/13 £000's	year ended 31/03/12 £000's
Cash flows from operating activities			
Net expenditure on ordinary activities		(42,703)	(15,538)
Adjustments for non-cash items			
Depreciation charge	4	322	279
Amortisation charge	4	114	116
Release of long term rent accrual		(59)	(59)
Adjustments for movements on working capital			
Increase in trade and other receivables falling due within one year	8	(207)	334
Increase in trade and other payables falling due within one year	10	670	5,763
Net cash outflow from operating activities		(41,863)	(9,105)
Cash flows from investing activities			
Payments to acquire intangible non-current assets	7	(98)	(49)
Payments to acquire property, plant and equipment	7	(718)	(231)
Cash flows from financing activities			
Grant-in-aid received		46,600	15,700
Net increase in cash and cash equivalents		**3,921**	**6,315**
Cash and cash equivalents at the beginning of the year	9	8,056	1,741
Cash and cash equivalents at the end of the year	9	11,977	8,056

The notes on pages 90 to 105 form part of these accounts.

Statement of changes in taxpayers' equity
for the year ended 31 March 2013

	General Reserve 2012/13 £000's	General Reserve 2011/12 £000's
Balance at 1 April	**1,579**	**1,417**
Comprehensive net expenditure for the year	(42,703)	(15,538)
Grant-in-aid received towards revenue expenditure	45,873	15,502
Grant-in-aid received towards purchase of non-current assets	727	198
Balance at 31 March	**5,476**	**1,579**

Notes to the accounts

1. Accounting policies

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

Accounting convention

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

Non-current assets

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

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

Property, plant and equipment comprise IT hardware, furniture, fixtures, office equipment and leasehold improvements which individually or grouped cost more than £5,000. Tangible assets are valued at historical cost less depreciation.

Assets of the same or similar type acquired around the same time and scheduled for disposal around the same time, or assets which are purchased at the same time and are to be used together, are grouped together as if they were individual assets.

All non-current assets have been funded by Government grant-in-aid.

Amortisation and depreciation

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

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

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

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

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

Value Added Tax
Monitor was required to register for VAT from 1 July 2012, as secondment income over the preceding 12 months exceeded the registration threshold. HM Revenue & Customs have determined that only a very limited amount of input VAT can be reclaimed, therefore most of the expenditure in these accounts is shown inclusive of VAT.

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

Early adoption of IFRSs, amendments and interpretations
Monitor has not adopted any IFRSs, amendments or interpretations early.

IFRSs, amendments and interpretations in issue but not yet effective, or adopted

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

• IAS 1 Presentation of financial statements, on other comprehensive income (OCI): Effective date of 2013/14 under EU and HM Treasury adoption.
• IAS 19 (Revised 2011) Employee Benefits: Effective date of 2013/14 under EU and HM Treasury adoption.
• IFRS 10 Consolidated Financial Statements: Effective date of 2014/15 under EU adoption.

• IFRS 11 Joint Arrangements: Effective date of 2014/15 under EU adoption.
• IFRS 12 Disclosure of Interests in Other Entities: Effective date of 2014/15 under EU adoption.
• IFRS 13 Fair Value Measurement: Effective date of 2013/14 under EU adoption, however this Standard is unlikely to be adopted by HM Treasury until 2014/15.
• IAS 27 Separate Financial Statements: Effective date of 2014/15 under EU adoption.
• IAS 28 Associates and joint ventures: Effective date of 2014/15 under EU adoption.
• IAS 32 Financial Instruments: Presentation - amendment for offsetting financial assets and liabilities: Effective date of 2013/14 under EU adoption.
• IFRS 9 Financial Instruments: The effective date is for accounting periods beginning on, or after 1 January 2015. The timing for EU adoption is uncertain.

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

2. Analysis of net expenditure by segment

Monitor has chosen to divide its activities into four reportable segments.

Segment 1: Monitor's foundation trust duties. Monitor's statutory duty is to assess NHS trusts for foundation trust status and ensuring they are well-led. This segment represents staff and other overhead costs incurred performing these functions.

Segment 2: Transition expenditure. These are the costs that Monitor has incurred preparing to become sector regulator for health care services under the Health and Social Care Act 2012 and to take on new functions, such as price setting and enabling integrated care.

Segment 3: Cooperation and Competition Panel (CCP). On 1 April 2012 Monitor took on sponsorship of the CCP from the Department of Health and was given a ring-fenced budget of £3.1m within Monitor's overall Grant-in-aid allocation. From 1 April 2013 the CCP has integrated into Monitor to become the Cooperation and Competition Directorate and their funding is no longer ring-fenced. The Panel is chaired by Lord Carter of Coles.

Segment 4: Contingency planning work. In 2012/13 contingency planning work was procured for two foundation trusts as part of Monitor's new powers under the failure regime. More detail on the teams' work is given elsewhere in this report.

Assets and liabilities are not internally reported by segment and so are not split by segment in this note.

	Segment 1 £000's	Segment 2 £000's	Segment 3 £000's	Segment 4 £000's	Total £000's
Gross expenditure	18,132	18,404	2,315	4,092	42,943
Income	(133)	(80)	(27)	0	(240)
Net expenditure	**17,999**	**18,324**	**2,288**	**4,092**	**42,703**

Prior year

	Segment 1 £000's	Segment 2 £000's	Total £000's
Gross expenditure	16,098	7,574	23,672
Income	(390)	(7,744)	(8,134)
Net expenditure	**15,708**	**(170)**	**15,538**

Description of Segments

Segment 1 - Provider regulation, sector development, assessment and associated support services
Segment 2 - Transition to Monitor's new role as sector regulator for health care services
Segment 3 - Cooperation and Competition Panel
Segment 4 - Contingency planning work

3. Staff costs

a) Staff costs comprise the following

	Permanently employed staff £000's	Others £000's	Total £000's
Salaries and wages	11,537	7,853	19,390
Social security costs	1,230		1,230
Employer's pension costs	2,442		2,442
Total cost of staff employed	**15,209**	**7,853**	**23,062**
Less recoveries in respect of outward secondments	(201)		(201)
Total cost of staff	**15,008**	**7,853**	**22,861**

Prior Year

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

Other staff costs cover agency, interim and seconded staff.

b) Analysis of full time equivalent employees during the year:

As at 31 March 2013, there were 226 salaried staff members (31 March 2012: 132), 199 of whom are members of the Principal Civil Service Pension Scheme, 21 of whom are members of the Partnership Civil Service Pension Scheme, and 6 of whom are not members of a pension scheme.

Monitor engages staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2013 there were 73 staff working at Monitor on this basis (31 March 2012: 49).

The average number of full time equivalent employees during the year ended 31 March 2013 was 181 (year ended 31 March 2012: 119). The average number of whole-time equivalent agency, secondment, temporary and interim staff was 50 (year ended 31 March 2012: 30).

c) The salaries of executives and NEDs are disclosed in the Remuneration Report on page 78

4. Other operating expenditure

	year ended 31/03/13 £000's	year ended 31/03/12 £000's
Property expenses *	2,070	1,387
Office expenses *	2,630	1,334
Consulting services **	12,533	4,630
Audit fee for Monitor	40	33
Audit fee for consolidated accounts	73	73
Other professional fees	1,501	1,625
Depreciation	322	279
Amortisation	114	116
Travel and subsistence	220	129
Communication expenses	349	98
General expenses	230	124
Total other operating expenditure	**20,082**	**9,828**

* Property expenses relate to the cost of leasing and running Monitor's offices. This has increased as Monitor took on more space in Wellington House during this year, and reflects the full year effect of the floors leased in 2011/12.
Office expenses include items needed to operate in the office, such as stationery and photocopying, which has risen over the year as a result of increased staff numbers and the need to fit out more desks.

Also included in office expenses are external recruitment fees and associated advertising costs which have significantly increased from 2011/12 as Monitor commenced recruitment to its permanent structure mid way through the year and there are many new posts to be filled to enable Monitor to perform its new functions.

** Spend on consultancy has increased in 2012/13 due to contingency planning work undertaken under Monitor's new functions (see also note 2) and the increased spend on regulatory design and organisational build projects undertaken as part of the transition to the new role as sector regulator. An analysis of the spend is provided below:

	£000's
Contingency planning work	4,092
Pricing development spend	885
Licensing development spend	1,217
Organisation design and build	3,354
Other policy, provider regulation and assessment spend	2,985
Consulting services total 2012/13	**12,533**

5. Miscellaneous income

	year ended 31/03/13 £000's	year ended 31/03/12 £000's
Income from Department of Health to fund Transition Programme	0	7,744
Insurance income	0	218
Rental income	160	128
Other miscellaneous income	80	44
	240	**8,134**

In 2011/12 DH reimbursed Monitor's costs of the Transition Programme through operating income. However in 2012/13 this has been funded through grant in aid. In 2011/12 Monitor received income from our insurers to pay invoices relating to legal fees for the Mid Staffordshire Public Inquiry. In 2012/13 all invoices were paid directly by our insurers, so we have received no insurance income.

Monitor continues to sub-let part of its office space, and the Cooperation and Competition Panel also recharged part of their office in 1 Horse Guards Road.

6. Analysis of net expenditure by Programme and Administration budget

Since Monitor started in 2004 all of its spend up to 2011/12 has been Administration budget.

During 2012/13 Monitor commenced contingency planning work that is procured for foundation trusts in financial difficulties to assess the best path to ensure continuity of services, and this has been classified as Programme spend by the Department of Health. The full year spend on this work is given below. This amount covers the complete project for Mid Staffordshire NHS Foundation Trust, and part of the project for Peterborough and Stamford NHS Foundation Trust.

	year ended 31/03/13 £000's	year ended 31/03/12 £000's
Administration	38,611	15,538
Programme	4,092	0
	42,703	**15,538**

7. Non-current assets

a) Intangible assets

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1 April 2012	359	41	400
Additions	98	0	98
Disposals	(8)	0	(8)
At 31 March 2013	**449**	**41**	**490**
Amortisation			
As at 1 April 2012	254	28	282
Charge for year	101	13	114
Disposals	(8)	0	(8)
At 31 March 2013	**347**	**41**	**388**
Net Book Value at 31 March 2012	105	13	118
Net Book Value at 31 March 2013	**102**	**0**	**102**

Prior Year

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1 April 2011	310	41	351
Additions	49	0	49
At 31 March 2012	**359**	**41**	**400**
Amortisation			
As at 1 April 2011	152	14	166
Charge for year	102	14	116
At 31 March 2012	**254**	**28**	**282**
Net Book Value at 31 March 2011	158	27	185
Net Book Value at 31 March 2012	**105**	**13**	**118**

7. Non-current assets continued

b) Property, plant and equipment

	IT equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
	£000's	£000's	£000's	£000's
Cost or valuation				
As at 1 April 2012	756	553	923	2,232
Additions	560	69	0	629
Disposals	(63)	(15)	0	(78)
At 31 March 2013	**1,253**	**607**	**923**	**2,783**
Depreciation				
As at 1 April 2012	416	437	567	1,420
Charge for year	179	49	94	322
Reverse Disposals	(63)	(15)	0	(78)
At 31 March 2013	**532**	**471**	**661**	**1,664**
Net Book Value at 31 March 2012	340	116	356	812
Net Book Value at 31 March 2013	**721**	**136**	**262**	**1,119**

Prior Year

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

All non-current assets listed above are owned by Monitor.

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

	31/03/13 £000's	31/03/12 £000's
Prepayments	749	660
Other receivables	217	99
	966	759

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

	31/03/13 £000's	31/03/12 £000's
Balances with central government bodies	104	47
Balances with local government bodies	0	332
Balances with NHS Foundation Trusts	55	0
Subtotal: Intra-government balances	**159**	**379**
Balances with bodies external to government	807	380
Total receivables	**966**	**759**

The balance with NHS foundation trusts relates to outstanding invoices for a member of Monitor staff who was seconded to a foundation trust during 2012/13.

9. Cash and cash equivalents

The following balances at 31 March were held at:	31/03/13 £000's	31/03/12 £000's
Government Banking Service	11,957	7,962
Commercial banks and cash in hand	20	94
	11,977	8,056

10. Trade payables and other current liabilities

Amounts falling due within one year:	31/03/13 £000's	31/03/12 £000's
Trade payables	3,992	2,213
Tax and national insurance contributions	428	285
Pensions payable	322	195
VAT payable	6	0
Liability relating to rent-free period	59	59
Non-current asset payables	0	89
Accruals and deferred income	3,559	4,944
	8,366	7,785

10a. Payables - intra-government balances

	31/03/13 £000's	31/03/12 £000's
Balances with central government bodies	1,133	3,666
Balances with NHS Bodies	111	12
Subtotal: Intra-government balances	1,244	3,678
Balances with bodies external to government	7,122	4,107
Total payables	**8,366**	**7,785**

11. Financial liabilities

	31/03/13 £000's	31/03/12 £000's
Liability relating to rent free period	13	72

12. Provisions for liabilities and charges

	Dilapidation provision £000's
Provision as at 1 April 2012	309
Charge for the year	0
Provision as at 31 March 2013	**309**

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

Analysis of expected timing of cash flows

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

Monitor will be vacating Matthew Parker Street in 2013/14 to complete the move to its permanent office location in Wellington House and as such the provision for dilapidations will be used in the year.

13. Operating leases

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

	31/03/13 £000's	31/03/12 £000's
Within 1 year	1,964	1,107
Within 2 to 5 years	5,572	1,085
After more than 5 years	0	0
	7,536	**2,192**

14. Pension scheme

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

For 2012/13, employer's contributions of £2,357,758 were payable to the PCSPS (2011/12: £1,671,635) at one of four rates in the range of 16.7% and 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of benefits accruing during 2012/13 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £76,924 (2011/12: £17,068) were paid into one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £6,892 (2011/12: £1,991), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2013 were £6,535 (31 March 2012: £2,464).

15. Capital commitments

There were no capital commitments at 31 March 2013 that require disclosure.

16. Related parties

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

In 2012/13 the value of related party expenditure with the Department of Health was £607,850 (2011/12: £219,105). This relates to the provision of payroll services for Monitor, accommodation costs as Monitor now occupies part of a Department of Health building, and recharged expenses for the Cooperation and Competition Panel as the Department of Health retained some contracts before they were passed on to Monitor.

In addition, Monitor has had a small number of transactions with other government departments and other central government bodies.
No board member, member of senior management or other related party has undertaken any material transactions with Monitor during the year.

17. Financial instruments

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

Liquidity risk

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

Interest rate risk

Throughout the year ended 31 March 2013, Monitor held no interest bearing assets or liabilities and, therefore, was not subject to any interest rate risk.

Credit risk

As can be seen in note 8a, at 31 March 2013, only £807,000 (31 March 2012: £400,000) of Monitor's receivables were with bodies external to government. Of these, £749,000 were prepayments and £50,000 were season ticket loans, which are recoverable through payroll. Given that intra government balances are not subject to credit risk, Monitor faced very little credit risk at 31 March 2013.

Most of Monitor's cash balance is held with the Government Banking Service. Monitor also maintains a commercial bank account with HSBC, but the balance on this account is automatically reduced if it ever rises above £25,000. Given the limit on the amount held in it, Monitor faces minimal credit risk as a result of maintaining this account.

18. Contingent liabilities

There were no contingent liabilities at 31 March 2013.

19. Events after the reporting date

The authorised date for issue is 4 July 2013.

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

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