

NHS Foundation Trusts: Consolidated Accounts 2008–09

Monitor - Independent Regulator of NHS Foundation Trusts

NHS Foundation Trusts: Consolidated Accounts 2008-09

1 April 2008 - 31 March 2009

Presented to Parliament pursuant to Schedule 8, paragraph 11(5)(a) of the
National Health Service Act 2006.

Ordered by the House of Commons to be printed 15 July 2009.



4 Matthew Parker Street
London
SW1H 9NP

Telephone: 020 7340 2400
Email: enquiries@monitor-nhsft.gov.uk
Website: www.monitor-nhsft.gov.uk

© Monitor (July 2009)
Publication code: IRREP 08/09

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Foreword

Monitor, Independent Regulator of NHS Foundation Trusts is responsible for authorising, monitoring and regulating NHS foundation trusts and was established under the Health and Social Care (Community Health and Standards) Act 2003. This act was repealed on 1 March 2007 and re-enacted on that date in a consolidating act, the National Health Service Act 2006 (the Act).

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

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

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 115 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2009. The dates of authorisation of these and periods of inclusion in the consolidated accounts presented in this report are as follows:

Authorised prior to 31 March 2007 and consolidated for the year ended 31 March 2008 and the year ended 31 March 2009:

Aintree University Hospitals NHS Foundation Trust
Barnsley Hospital NHS Foundation Trust
Basildon and Thurrock University Hospitals NHS Foundation Trust
Basingstoke and North Hampshire NHS Foundation Trust
Birmingham Children's Hospital NHS Foundation Trust
Bradford Teaching Hospitals NHS Foundation Trust
Calderdale and Huddersfield NHS Foundation Trust
Cambridge University Hospitals NHS Foundation Trust
Chelsea and Westminster Hospital NHS Foundation Trust
Chesterfield Royal Hospital NHS Foundation Trust
City Hospitals Sunderland NHS Foundation Trust
Clatterbridge Centre for Oncology NHS Foundation Trust
Countess of Chester Hospital NHS Foundation Trust
County Durham and Darlington NHS Foundation Trust
Derby Hospitals NHS Foundation Trust
Doncaster and Bassetlaw Hospitals NHS Foundation Trust
Frimley Park Hospital NHS Foundation Trust
Gateshead Health NHS Foundation Trust
Gloucestershire Hospitals NHS Foundation Trust
Guy's and St Thomas' NHS Foundation Trust
Harrogate and District NHS Foundation Trust
Heart of England NHS Foundation Trust
Homerton University Hospital NHS Foundation Trust
James Paget University Hospitals NHS Foundation Trust
King's College Hospital NHS Foundation Trust
Lancashire Teaching Hospitals NHS Foundation Trust
Liverpool Women's NHS Foundation Trust
Luton and Dunstable Hospital NHS Foundation Trust
Moorfields Eye Hospital NHS Foundation Trust
Northumbria Healthcare NHS Foundation Trust
Oxleas NHS Foundation Trust
Papworth Hospital NHS Foundation Trust
Peterborough and Stamford Hospitals NHS Foundation Trust
Queen Victoria Hospital NHS Foundation Trust
Royal Berkshire NHS Foundation Trust
Royal Devon and Exeter NHS Foundation Trust
Royal National Hospital for Rheumatic Diseases NHS Foundation Trust
Salford Royal NHS Foundation Trust
Salisbury NHS Foundation Trust
Sheffield Children's NHS Foundation Trust
Sheffield Teaching Hospitals NHS Foundation Trust
Sherwood Forest Hospitals NHS Foundation Trust
South Devon Healthcare NHS Foundation Trust
South Essex Partnership NHS Foundation Trust
South London and Maudsley NHS Foundation Trust
South Staffordshire and Shropshire Healthcare NHS Foundation Trust
Southend University Hospital NHS Foundation Trust
South Tyneside NHS Foundation Trust
Stockport NHS Foundation Trust
Tavistock and Portman NHS Foundation Trust
The Newcastle upon Tyne Hospitals NHS Foundation Trust
The Rotherham NHS Foundation Trust
The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust
The Royal Marsden NHS Foundation Trust

The Royal Orthopaedic Hospital NHS Foundation Trust
University College London Hospitals NHS Foundation Trust
University Hospitals Birmingham NHS Foundation Trust
University Hospital of South Manchester NHS Foundation Trust
Yeovil District Hospital NHS Foundation Trust

Authorised on 1 April 2007 and consolidated for the year ended 31 March 2008 and the year ended 31 March 2009:

The Christie NHS Foundation Trust
Dorset Healthcare NHS Foundation Trust
York Hospitals NHS Foundation Trust

Authorised on 1 May 2007 and consolidated for the 11 month period ended 31 March 2008 and the year ended 31 March 2009:

Berkshire Healthcare NHS Foundation Trust
Central and North West London NHS Foundation Trust
Northern Lincolnshire and Goole Hospitals NHS Foundation Trust

Authorised on 1 June 2007 and consolidated for the 10 month period ended 31 March 2008 and the year ended 31 March 2009:

Dorset County Hospital NHS Foundation Trust
Heatherwood and Wexham Park Hospitals NHS Foundation Trust

Authorised on 1 July 2007 and consolidated for the 9 month period ended 31 March 2008 and the year ended 31 March 2009:

2gether NHS Foundation Trust
Cheshire and Wirral Partnership NHS Foundation Trust
Wirral University Teaching Hospital NHS Foundation Trust

Authorised on 1 August 2007 and consolidated for the 8 month period ended 31 March 2008 and the year ended 31 March 2009:

Hertfordshire Partnership NHS Foundation Trust
Leeds Partnerships NHS Foundation Trust
Rotherham Doncaster and South Humber Mental Health NHS Foundation Trust

Authorised on 1 October 2007 and consolidated for the 6 month period ended 31 March 2008 and the year ended 31 March 2009:

Cumbria Partnership NHS Foundation Trust
Lincolnshire Partnership NHS Foundation Trust
Milton Keynes Hospital NHS Foundation Trust
North Essex Partnership NHS Foundation Trust

Authorised on 1 November 2007 and consolidated for the 5 month period ended 31 March 2008 and the year ended 31 March 2009:

East London NHS Foundation Trust
Poole Hospital NHS Foundation Trust

Authorised on 1 December 2007 and consolidated for the 4 month period ended 31 March 2008 and the year ended 31 March 2009:

Blackpool, Fylde And Wyre Hospitals NHS Foundation Trust
Lancashire Care NHS Foundation Trust
North Tees and Hartlepool NHS Foundation Trust
Taunton and Somerset NHS Foundation Trust

Authorised on 1 February 2008 and consolidated for the 2 month period ended 31 March 2008 and the year ended 31 March 2009:

Birmingham Women's NHS Foundation Trust
Greater Manchester West Mental Health Foundation Trust
Mid Staffordshire NHS Foundation Trust
Norfolk and Waveney Mental Health NHS Foundation Trust
Tameside Hospital NHS Foundation Trust

Authorised on 1 March 2008 and consolidated for the 1 month period ended 31 March 2008 and the year ended 31 March 2009:

Camden and Islington NHS Foundation Trust

Authorised on 1 April 2008 and consolidated for the year ended 31 March 2009:

Medway NHS Foundation Trust
Mid Cheshire Hospitals NHS Foundation Trust
Oxfordshire and Buckinghamshire Mental Health NHS Foundation Trust

Authorised on 1 May 2008 and consolidated for the 11 month period ended 31 March 2009:

Colchester Hospital University NHS Foundation Trust
Norfolk and Norwich University Hospitals NHS Foundation Trust
Somerset Partnership NHS Foundation Trust
Surrey and Borders Partnership NHS Foundation Trust

Authorised on 1 June 2008 and consolidated for the 10 month period ended 31 March 2009:

Cambridgeshire and Peterborough NHS Foundation Trust
North East London NHS Foundation Trust
University Hospitals Bristol NHS Foundation Trust

Authorised on 1 July 2008 and consolidated for the 9 month period ended 31 March 2009:

Birmingham and Solihull Mental Health NHS Foundation Trust
Pennine Care NHS Foundation Trust
Sheffield Health and Social Care NHS Foundation Trust
Tees Esk and Wear Valleys NHS Foundation Trust

Authorised on 1 August 2008 and consolidated for the 8 month period ended 31 March 2009:

Alder Hey Children's NHS Foundation Trust
Sussex Partnership NHS Foundation Trust

Authorised on 1 October 2008 and consolidated for the 6 month period ended 31 March 2009:

Royal Bolton Hospital NHS Foundation Trust
The Dudley Group of Hospitals NHS Foundation Trust

Authorised on 1 November 2008 and consolidated for the 5 month period ended 31 March 2009:

Burton Hospitals NHS Foundation Trust
Kettering General Hospital NHS Foundation Trust

Authorised on 1 December 2008 and consolidated for the 4 month period ended 31 March 2009:

Great Western Hospitals NHS Foundation Trust
Warrington and Halton Hospitals NHS Foundation Trust
Wrightington, Wigan and Leigh NHS Foundation Trust

Authorised on 1 January 2009 and consolidated for the 3 month period ended 31 March 2009:

Central Manchester University Hospitals NHS Foundation Trust

Authorised on 1 February 2009 and consolidated for the 2 month period ended 31 March 2009:

Sandwell Mental Health and Social Care NHS Foundation Trust

Authorised on 1 March 2009 and consolidated for the 1 month period ended 31 March 2009:

East Kent Hospitals University NHS Foundation Trust

Review of NHS foundation trust performance

A further year of financial stability

Overview

In the year to 31 March 2009, 115 NHS foundation trusts generated total revenues of £22.765 billion, an increase of 41% on the previous year for 89 NHS foundation trusts. In the year, these trusts earned a retained surplus of £269 million. This compares with a restated retained surplus of £404 million in the previous year.

Operating surplus (after adding back impairment charges) was £904 million (or 4.0% of total income) compared with £787 million (or 4.9%) in 2007-08. Impairment charges in the Income and Expenditure Account amounted to £250 million for the year, an increase of £117 million over the previous year.

Total cash and investments amounted to £2.756 billion at 31 March 2009, an increase of £489 million in the year. Net capital expenditure (after offsetting receipts from the sale of tangible assets) amounted to £1.174 billion. This represents an increase of £330 million compared with the previous year, and £458 million more than depreciation charged in the year.

The results for the year demonstrate not only the overall financial health of the sector but also, as importantly, reflect the financial stability of individual NHS foundation trusts. All 115 NHS foundation trusts generated an operating surplus before charges for impairments and after payment of dividends on public dividend capital. Six NHS foundation trusts reported an I&E deficit before charges for impairments and exceptional costs, the total of this deficit was £4 million with no individual deficit greater than £2 million. Two trusts reported a financial risk rating of 2 for the year and no trust was rated 1 (the worst risk rating) for financial risk.

Operating efficiency

During the year the overall operating performance of NHS foundation trusts was impacted by higher than planned activity, although the financial benefit of this was diluted to an extent by the additional cost of its delivery through the use of more expensive resources. For example the use of agency staff to ensure that national healthcare targets were met, particularly in the provision of Accident and Emergency services and the delivery of 18-week wait targets, restricted the additional financial upside of higher activity.

In the year, total revenues exceeded plan by £1.1 billion, whilst combined pay, drug and other operating costs were also above plan by £1.0 billion in aggregate. The net positive financial impact of additional activity was therefore broadly neutral.

In aggregate, EBITDA (earnings before interest, tax, depreciation and amortisation), a proxy for overall operating efficiency, decreased from 8.1% in 2007-08 to 6.1% in the current year. This reversed an improving trend in prior years, and indicates that some trusts in the current year found it more difficult to deliver the full extent of the efficiencies inherent within tariff for the year, whilst at the same time meeting contractual service performance requirements.

The number of debtor days at 26.4 days (2008: 24.2) and creditor days at 55.1 days (2008: 60.6) remained reasonably consistent between years.

Cash balances and borrowing

Total cash balances, excluding investments (£258 million), amounted to £2.498 billion as at 31 March 2009. Of this, £2.355 billion was held with the Paymaster General as at the year end.

Aggregate cash balances were £671 million ahead of plans for the year, of which £441 million was due to positive variances compared with plan on operational cashflow and £227 million (net of disposals) resulting from lower than planned capital expenditure.

Total borrowing at 31 March 2009 was £347 million (2008: £210 million), which compares with the aggregate prudential borrowing limit for all NHS foundation trusts of £4.7 billion (2008: £3.2 billion). The prudential borrowing limit is set at the beginning of the year by Monitor for each NHS foundation trust in accordance with the Prudential Borrowing Code, and represents the maximum that each trust can borrow.

Capital expenditure

Total gross capital expenditure in the year amounted to £1.25 billion (2008: £906 million), which was offset in part by receipts from the sale of assets which amounted to £74 million (2008: £62 million).

Total capital expenditure was £327 million (21%) below plan. This compares with a shortfall against plan in 2007-08 of 23%. NHS foundation trusts continue to invest surplus earnings in their estates at levels significantly ahead of the depreciation charges in the year.

Looking forward

The overall financial position and key indicator trends declined each quarter during 2008-09. This in part reflects the increased pressures on NHS foundation trusts to continue to meet contractual obligations whilst at the same time treating higher than planned activity levels. To an extent a more commercial approach taken by commissioners in contract discussions with providers reflects some of the elements from World Class Commissioning. As funding growth reduces in future years, and particularly from 2011, and in the absence of accelerated progress in productivity and efficiency, these trends can be expected to continue. The main challenge will be to ensure that NHS foundation trusts plan and successfully implement efficiencies in advance of financial pressures, whilst maintaining and improving the quality of the care they provide for their patients.

In addition, whilst 2008-09 saw a reduction in merger and acquisition activity, there is strong evidence to suggest that the volume of this activity is likely to grow again in 2009-10 and thereafter. This reflects to a great extent a move by Strategic Health Authorities towards the identification and execution of solutions for those NHS Trusts which are not placed to become NHS foundation trusts, and also by commissioners tendering contracts for the provision of services currently provided by their own organisations. NHS foundation trusts are likely to be best placed to complete these transactions, and plans are already in place to do so in a significant minority of current NHS foundation trusts.

Finally, with the adoption of IFRS from 1 April 2009, combined with ongoing uncertainty in the capital markets, the availability of off balance sheet funding of significant projects is likely to remain uncertain. The effect of this will be a likely increase in borrowing by NHS foundation trusts to fund smaller scale but material incremental capital projects.

All NHS foundation trusts are required to meet the above challenges and changes, whilst continuing to provide a high quality of care from a financially secure platform. To do this, NHS foundation trusts must continue to generate, retain and then invest surpluses in services and assets to support their overall strategy.

Dr William Moyes
Executive Chairman
3 July 2009

Statement of responsibilities and accountability framework

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

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

In discharging its responsibilities under paragraph 11(3) of Schedule 8 to the National Health Services Act 2006, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with UK Generally Accepted Accounting Practice (GAAP).

Statement on Internal Control

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

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

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

Each NHS foundation trust's annual report and accounts, which they lay before Parliament, includes a statement on internal control for the year ended 31 March 2009. These statements confirmed that all the NHS foundation trusts had systems of internal control in place for the financial year 2008-09 and up to the dates of approval of their annual reports and accounts. Each individual statement on internal control explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk is not effectively controlled.

Overview of internal control systems within NHS foundation trusts

Generally NHS foundation trusts have reported continued improvement in their internal control systems during 2008-09, including:

- strengthening of performance management systems; and
- further development of a risk-based approach to the identification and early rectification of potential problems.

As in the previous year, in 2008-09 the majority of NHS foundation trusts reported continued focus on further development of internal control systems, including:

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

NHS foundation trusts are given quarterly ratings by Monitor in relation to governance, financial risk and the provision of mandatory services.

Governance ratings range from 'green', where governance arrangements comply with the terms of Authorisation; through 'amber' where concerns exist; to 'red' where there may be a significant breach of the terms of Authorisation.

In Quarter 4 of 2008-09, amber governance risk ratings were assigned to 27 trusts due to in the main concerns over meeting healthcare targets and national core standards. The main breaches were failures to achieve:

- MRSA year-on-year reduction contractual obligations;
- the 4 hour waiting time in Accident and Emergency target; and
- the *Clostridium Difficile* infection reduction target

Where an NHS foundation trust has failed to comply with a key healthcare target or national requirement (as defined in the Operating Framework 2008/09) over three consecutive quarters, it is rated red for governance risk.

During the year, 16 trusts were at some time assigned red governance risk ratings, of which nine remained red as at 31 March 2009:

- Gloucestershire Hospitals NHS FT and University Hospital of South Manchester NHS FT were red rated because they triggered the “3 amber to red” rule for governance concerns related to a failure to achieve their MRSA contractual obligations;
- County Durham and Darlington NHS FT and North Lincolnshire and Goole NHS FTs were red rated due to a significant breach of their terms of Authorisation reflecting their MRSA performance;
- Aintree University Hospitals NHS FT and South Tyneside NHS FT were red rated because they triggered the “3 amber to red” rule for governance concerns related to a failure to achieve their Clostridium Difficile targets over time. Aintree University Hospitals NHS FT has subsequently been found to be in significant breach of their terms of Authorisation reflecting their *Clostridium Difficile* performance;
- Royal National Hospital for Rheumatic Diseases NHS FT and Mid-Staffordshire NHS FT were red rated due to serious failures of governance; and
- Heatherwood and Wexham Park Hospitals NHS FT was red rated for its service performance score being above 3.0 in accordance with the Compliance Framework.

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

Monitor remains concerned not only about the failure by some NHS foundation trusts to meet this requirement for a limited number of targets and national core standards, but also about the overly optimistic expectations and subsequently inaccurate predictions made by some NHS foundation trust boards as part of their annual plans and quarterly returns. During the year this gave rise to independent reviews of self certification at three NHS foundation trusts (in 2008 there were eleven such reviews).

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

Financial

During 2008-09, NHS foundation trusts have continued to improve their management of financial pressures within the NHS, with relatively few and smaller financial deficits compared to previous years. In the main, where required, financial recovery plans have been successfully developed and implemented.

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

- No foundation trust had an FRR of 1 in the year.
- The Royal National Hospital for Rheumatic Diseases NHS FT had an FRR of 2 during the whole year.
- City Hospitals Sunderland NHS FT had an FRR of 2 in Quarter 1, but this improved to 3 for the remainder of the year.
- Heatherwood and Wexham Park Hospitals NHS FT had an FRR of 2 at Quarter 4, down from an FRR of 5 in Quarter 1, and an FRR of 4 in Quarters 2 and 3.

Mandatory services

All foundation trusts have been rated 'green' in relation to the provision of mandatory services throughout the year.

Use of formal powers of intervention

Mid Staffordshire NHS FT

On 16 April 2009, the Healthcare Commission published its report into Mid Staffordshire NHS FT which identified a range of significant clinical, governance and leadership failures. Prior to the publication of this report, but in response to these failings, Monitor used its formal powers to require the appointment of an interim Chair and an interim Chief Executive. The Trust has now developed and published its detailed action plan to rectify these failings, together with others identified in subsequent reports. The Trust remains in significant breach of its Authorisation at the date of these accounts, and Monitor continues to oversee the delivery of the actions required to rectify its position.

Royal National Hospital for Rheumatic Diseases NHS FT

Royal National Hospital for Rheumatic Diseases NHS FT was served an intervention notice under section 52 of the 2006 National Health Service Act by Monitor in August 2008 for significant breach of its terms of Authorisation in relation to financial governance. Monitor undertook further interventions in December 2008 and again in April 2009 to require board changes. No concerns over quality of care were noted. The Trust remains in significant breach of its Authorisation at the date of these accounts, and Monitor continues to oversee the delivery of the actions required to rectify its position.

Review of individual statements on internal control

The following additional internal control weaknesses were experienced by NHS foundation trusts during the financial year, as reflected in their individual statements on internal control. Weaknesses that may be material in the context of the consolidation are included here; other, less significant weaknesses can be found in the statements on internal control of the individual NHS foundation trusts.

Information Governance

Information governance remains a significant area of internal control weakness for a number of foundation trusts. A range of information governance incidents have been identified in the year; these include:

- Losses and thefts of laptop computers containing patient information;
- Losses of computer memory sticks containing patient information;
- Losses of paper medical records; and
- Accidental destruction of paper documents.

The following foundation trusts reported serious untoward instances in relation to data security in the year:

- Aintree University Hospitals NHS FT
- Basingstoke and North Hampshire NHS FT
- Birmingham & Solihull Mental Health NHS FT
- Bradford Teaching Hospitals NHS FT
- Cambridge University Hospitals NHS FT
- Cheshire and Wirral Partnership NHS FT
- Colchester Hospital University NHS FT
- County Durham and Darlington NHS FT
- Gloucestershire Partnership NHS FT
- Heart of England NHS FT
- Medway NHS FT
- Moorfields Eye Hospital NHS FT
- Peterborough and Stamford Hospitals NHS FT
- Royal Bolton Hospital NHS FT
- Sheffield Children's NHS FT
- Sheffield Health and Social Care NHS FT
- Stockport NHS FT
- Surrey and Borders Partnership NHS FT
- Tavistock and Portman NHS FT
- Tees, Esk and Wear NHS FT
- The Newcastle Upon Tyne Hospitals NHS FT
- University College London Hospitals NHS FT

In all of the reported cases, NHS foundation trusts confirm that they have taken the appropriate disciplinary action, prepared and implemented action plans and continue to monitor risks.

Healthcare Commission self assessment

In the year the Healthcare Commission (subsequently the Care Quality Commission from 1 April 2009) required NHS foundation trusts to perform self assessments of their compliance with national core standards. A declaration of compliance or breach is made by the NHS foundation trust. 34 NHS foundation trusts reported non-compliance with one or more of the self assessment requirements.

All NHS foundation trusts have reported that action plans are in place to address these findings, or have addressed the issue by the 31 March 2009.

Hygiene Code

10 foundation trusts reported instances of non-compliance with sub-duties contained in the Hygiene Code during the year. All NHS foundation trusts have reported that action plans are in place to address these findings, or have addressed the issue by the 31 March 2009.

Healthcare targets

Foundation trusts are required to comply with healthcare targets in the compliance framework. Breaches of national targets disclosed by foundation trusts in their individual statements of internal control are:

- Reduction of MRSA bloodstream infections: five foundation trusts;
- Maximum waiting time of four hours in Accident and Emergency: nine foundation trusts;
- 18 weeks referral to treatment: two foundation trusts;
- Reduction of Clostridium Difficile: two foundation trusts;
- Thrombolysis treatment of heart attack within 60 minutes: one foundation trust
- Delayed discharges: one foundation trust; and
- Late cancellations of operations: one foundation trust.

Use of Resources

Two foundation trusts received qualified Use of Resource opinions from their external auditors for the year ended 31 March 2009:

- Royal National Hospital for Rheumatic Diseases NHS FT's external auditors stated that they were unable to satisfy themselves that the Trust had put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. The Trust was rated FRR 2 at the year end.
- Heatherwood and Wexham Park Hospitals NHS FT has reported a challenging financial position; its external auditors issued an 'except for' Use of Resources conclusion based upon the financial outlook for 2009/10 and the lack of adequate medium term planning which took place in 2008/09. The Trust was rated FRR 2 at the year end.

Financial standing

Dorset County Hospital NHS FT reported a deficit of £1.8 million for the year ended 31 March 2009. The Trust has noted in its individual Statement of Internal Control that it faces a very challenging financial position in 2009/10 which requires the delivery of a £6.8 million cost improvement programme to achieve recurring financial balance. Its board confirms that it has put in place measures to achieve this.

Dr William Moyes
Executive Chairman
3 July 2009

Independent auditor's report to the Independent Regulator of NHS Foundation Trusts

I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2009 in accordance with the letter of engagement dated 19 August 2005. These comprise the income and expenditure account, the balance sheet, the cashflow statement and statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set by the Independent Regulator of NHS Foundation Trusts (Monitor), in line with the NHS Foundation Trust Reporting Manual (FT FReM), and described within the accounts.

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

Monitor is responsible under the National Health Services Act 2006 for preparing a report which provides an overall summary of the accounts of NHS foundation trusts. As described on page 7, in discharging its responsibilities under paragraph 11(3) of Schedule 8 to the Act, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trust accounts, and consolidated in accordance with UK Generally Accepted Accounting Practice. Monitor is also responsible for preparation of the contents of the review.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the accounting policies set out within them. I also report to you whether, in my opinion, certain information given in the review, which comprises the review of NHS foundation trust performance 2008-09, is consistent with the financial statements.

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

I read the other information contained in the review and consider whether it is consistent with the audited financial statements. This other information comprises the foreword and the Statement of Internal Control. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information. I am not required to form an opinion on the effectiveness of the corporate governance procedures or risk and control procedures of either Monitor or individual NHS foundation trusts.

Basis of audit opinion

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS foundation trust sector as at 31 March 2009 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the accounting policies set out within them; and
- information given within the review, which comprises the review of NHS foundation trust performance 2008-09, is consistent with the financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

10 July 2009

Consolidated income and expenditure account

Year ended 31 March 2009

	Note	2008-09 (£ million)	Restated 2007-08 (£ million)
Income from activities, including joint ventures	3	19,928.8	14,061.8
less share of joint venture income		(3.7)	0.0
Other operating income	4	<u>2,840.3</u>	<u>2,110.6</u>
Total operating income		22,765.4	16,172.4
Impairments		(249.5)	(132.8)
Operating expenses	5.1	<u>(21,861.8)</u>	<u>(15,385.0)</u>
Operating surplus		654.1	654.6
Share of joint venture profit / (loss)		(0.9)	0.0
Exceptional items	7	7.1	6.2
Profit /(loss) on disposal of fixed assets	8	<u>(0.4)</u>	<u>(1.1)</u>
Surplus before interest		659.9	659.7
Interest receivable	9.1	114.0	107.9
Interest payable	9.2	(14.3)	(9.7)
Other finance costs - unwinding of discount	16	<u>(3.9)</u>	<u>(2.7)</u>
Surplus before taxation		755.7	755.2
Taxation		<u>0.0</u>	<u>0.2</u>
Surplus after taxation		755.7	755.4
PDC dividends payable	17	<u>(486.4)</u>	<u>(351.9)</u>
Retained surplus for the year		<u>269.3</u>	<u>403.5</u>

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

All operations are continuing.

The notes on pages 17 to 44 form part of these accounts.

Consolidated statement of total recognised gains and losses

Year ended 31 March 2009

	Note	2008-09 (£ million)	Restated 2007-08 (£ million)
Surplus for the financial year before dividend payments		755.7	755.4
Fixed asset impairment losses	19	(343.2)	(119.0)
Unrealised (loss)/surplus on fixed assets and current asset investments revaluations	19	(662.9)	847.9
Increase in the donated asset reserve due to receipt of donated assets	19	54.8	58.5
Reductions in the donated asset reserve due to depreciation, impairment, and/or disposal of donated assets	19	(49.4)	(42.9)
Additions in "Other reserves"	19	(6.5)	0.5
Other recognised gains and losses	19	(0.8)	(0.4)
Total recognised gains and losses for the financial year		(252.3)	1,500.0
Prior period adjustments		11.9	(5.5)
Total recognised gains and losses since the last financial year		(240.4)	1,494.5

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

The notes on pages 17 to 44 form part of these accounts.

Consolidated balance sheet

As at 31 March 2009

	Note	31 Mar 2009 (£ million)	Restated 31 Mar 2008 (£ million)
Fixed assets			
Intangible assets	10	67.8	48.3
Tangible assets	11.1	15,849.4	13,204.0
Investments in joint ventures			
share of gross assets		5.9	0.0
share of gross liabilities		(6.5)	0.0
Total fixed assets		15,916.6	13,252.3
Long-term debtors			
Amounts due after more than one year	13.1	495.4	241.6
Current assets			
Stocks and work in progress	12	296.7	222.4
Debtors: amounts due within one year	13.1	1,153.3	829.0
Investments	14	257.7	380.5
Cash at bank and in hand		2,498.4	1,887.0
Total current assets		4,206.1	3,318.9
Current Liabilities			
Creditors: amounts due within one year	15.1	(2,819.4)	(2,236.6)
Net current assets		1,386.7	1,082.3
Total assets less current liabilities		17,798.7	14,576.2
Long-term creditors			
Amounts falling due after more than one year	15.1	(372.7)	(230.0)
Provision for liabilities and charges	16	(336.1)	(317.1)
Total assets employed		17,089.9	14,029.1
Financed by taxpayers' equity			
Public dividend capital	18	10,054.9	7,803.3
Revaluation reserve	19	4,657.2	4,631.6
Donated asset reserve	19	767.5	722.7
Other reserves	19	37.8	5.3
Income and expenditure reserve	19	1,572.5	866.2
Total taxpayers' equity		17,089.9	14,029.1

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

The notes on pages 17 to 44 form part of these accounts.

Dr William Moyes
Executive Chairman
3 July 2009

Consolidated cash flow statement

Year ended 31 March 2009

	Note	2008-09 (£ million)	Restated 2007-08 (£ million)
Net cash inflow from operating activities	20.1	1,555.2	1,825.9
Returns on investment and servicing of finance			
Interest received		113.6	106.4
Interest paid		(9.7)	(6.7)
Interest element of finance lease rental payments		(4.2)	(2.9)
Net cash inflow from returns on investments and servicing of finance		99.7	96.8
Taxation paid		0.0	0.0
Capital Expenditure			
Payments to acquire tangible fixed assets		(1,229.1)	(888.4)
Receipts from sale of tangible fixed assets		74.2	61.9
Payments to acquire intangible assets		(19.2)	(17.8)
Payments for fixed assets investments		(0.1)	0.0
Net cash outflow from capital expenditure		(1,174.2)	(844.3)
Dividends paid		(504.4)	(369.4)
Net cash inflow before management of liquid resources and financing		(23.7)	709.0
Management of liquid resources			
Purchase of current asset investments		(3,469.4)	(4,500.6)
Sale of current asset investments		3,615.7	4,354.9
Net cash outflow from management of liquid resources		146.3	(145.7)
Net cash inflow before financing		122.6	563.3
Financing			
New public dividend capital received		140.6	357.5
Public dividend capital repaid		(23.9)	(109.5)
Loans received from Foundation Trust Financing Facility		130.4	56.0
Loans repaid to Foundation Trust Financing Facility		(10.1)	(3.9)
Other loans repaid		(16.2)	(3.9)
Other capital receipts		39.2	35.6
Capital element of finance lease rental payments		(1.4)	(1.0)
Net cash inflow from financing		258.6	330.8
Increase in cash	20.2	381.2	894.1

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

The notes on pages 17 to 44 form part of these accounts.

Notes to the accounts

1. Accounting policies

Accounting convention

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

The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. Where NHS foundation trusts have a choice as to how to apply individual accounting policies and these have been applied in different ways by individual trusts, the accounts of the individual NHS foundation trusts have been consolidated and the relevant notes to the accounts refer to the divergence in application.

Basis of consolidation

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

NHS foundation trusts have been included within these accounts using the acquisition method of accounting as if they were wholly owned subsidiaries even though Monitor is not the parent undertaking. Accordingly, the income and expenditure and the statement of cash flows include the results and cash flows of the NHS foundation trusts from the date of authorisation for each organisation. The opening balance is nil, with the assets and liabilities being brought into the balance sheet on the day of transfer at the carrying value for the NHS trust, unless materially different to fair value. No such adjustments were necessary in 2008/09.

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

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

Subsidiaries and Joint Ventures

These financial statements consolidate the financial statements of NHS foundation trusts and entities controlled by NHS foundation trusts (its subsidiaries) and incorporate their share of the results of jointly controlled entities (joint ventures) using the gross equity method of accounting and associates using the equity method of accounting.

Subsidiaries are consolidated from the date on which control is obtained by an NHS foundation trust and cease to be consolidated from the date on which control is no longer held by an NHS foundation trust. Where an NHS foundation trust ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the NHS foundation trust held control. The financial statements of subsidiaries are prepared for the same reporting year as NHS foundation trusts, using consistent accounting policies.

NHS foundation trusts' investments in joint ventures are accounted for under the gross equity method of accounting. Under the gross equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the NHS foundation trusts' share of gross assets and liabilities of the joint venture, less any impairment in value. The income statement shows the NHS foundation trusts' share of the income and post tax profits from the joint ventures.

NHS foundation trusts' investments in their associates are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the NHS foundation trusts' share of the net assets of the associates, less any impairment in value. The income statement reflects the NHS foundation trusts' share of post tax profits from the associates.

Prior year comparatives

Full prior year comparative figures relate only to those NHS foundation trusts that became foundation trusts on or before 31 March 2007. For those foundation trusts that were authorised in 2007/08, the comparatives are only for the period from the date of authorisation up until 31 March 2008. The prior year figures are not, therefore, directly comparable with current year figures. The results of NHS foundation trusts that were authorised in 2008/09 are not shown separately from the results of the existing NHS foundation trusts and there are no prior year comparatives for these bodies.

Acquisitions and discontinued operations

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

- a) the sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- b) if a termination, the former activities have ceased permanently;
- c) the sale or termination has a material effect on the nature and focus of the reporting NHS foundation trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in its continuing operations; and
- d) the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

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

Operations not satisfying these conditions are classified as continuing.

Income recognition

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

Expenditure

Expenditure is accounted for applying the accruals convention.

Pooled budgets

Some NHS foundation trusts have entered into a pooled budget with local authorities. Under the arrangement funds are pooled under S31 of the Health Act 1999 and the NHS foundation trusts account for their own share of the pooled budget's income and expenditure and assets and liabilities as the pooled budget is not an entity in its own right.

Intangible and tangible fixed assets

Intangible assets are capitalised when they are capable of being used in a trust's activities for more than one year; they can be valued; and they have a cost of at least £5,000. Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

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

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

All land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years. A three yearly interim valuation is also carried out. Professional valuations are conducted by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. The last professional asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005. The revaluation undertaken at that date has been accounted for on 31 March 2005. Interim valuations have been carried out primarily on the basis of depreciated replacement cost for specialised operational property and existing use value for non-specialised operational property, including land for existing use. Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

Application of fixed asset accounting policy

At the time of last full valuation, on 1 April 2005, trusts' specialised use assets were valued on a Depreciated Replacement Cost (DRC) basis, which values a modern reproduction of existing assets. The next full valuation is due by 31 March 2010, with the application of DRC by this date requiring valuation on a modern equivalent asset (MEA) basis. In practice, some trusts have obtained MEA valuations and accounted for them during 2008-09, some trusts obtained MEA valuations and recorded them as prior period adjustments and others plan to obtain MEA valuations and account for them during 2009-10.

In discharging its responsibilities to apply accounting policies consistently, Monitor has selected the use of MEA as its chosen policy for specialised use assets, and to apply MEA valuations to the 2008-09 financial year. Accordingly, where trusts have accounted for their revaluations as a prior period adjustment these have been reversed on consolidation, with the effect being a reduction in the reported surplus for the year of £23.5 million and a reduction in the revaluation reserve for the year of £121.7 million.

Monitor has also analysed the financial impact on the reported surplus for the year of the revaluation differences between those trusts who used MEA during 2008-09 and those that did not. The 25 trusts that had MEA based revaluations saw an average reduction in their asset values of 27% for land and 7% for specialised buildings. Using these average percentages as a proxy, applying this method to all trusts, where appropriate, would have resulted in a further downward valuation in their assets of £179 million for land and £239 million for specialised buildings.

Of the asset revaluations recorded in these accounts in 2008-09, 80% have been taken to reserves and 20% to the I&E account. On this basis, the estimate of the further downward revaluations would produce a reduction in the reported surplus for the year of £82 million. Monitor has elected not to make an adjustment to the accounts on the grounds that this is not material. All trusts are required to revalue their specialised use assets on an MEA basis during 2009-10 and account for those revaluations in their 31 March 2010 balance sheets.

Assets in the course of construction are valued at cost and are valued by professional valuers as part of a five or three yearly valuation or when they are brought into use. Residual interests in off-balance sheet private finance initiative (PFI) properties are included in assets under construction within tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the charge in the fair value of the residual as estimated at the start of the contract and at the balance sheet date. Operational equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at the net recoverable amount.

Depreciation, amortisation and impairments

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

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

Taxation

The Finance Act 2004 amended S519A Income and Corporation Taxes Act 1998 to provide power to the Treasury to make certain non-core activities of NHS foundation trusts potentially subject to corporation tax. Subsequently HM Revenue and Customs decided that Corporation tax would not be payable by NHS foundation trusts until the 2009-10 financial year.

Value added tax

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

Investments

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

Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the donated asset reserve and, each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the income and expenditure account. Similarly, any impairment on donated assets charged to the income and expenditure account is matched by a transfer from the donated asset reserve. On sale of donated assets, the value of the sale proceeds is transferred from the donated asset reserve to the income and expenditure reserve.

Private finance initiative (PFI) transactions

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

Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Work-in-progress comprises goods and services in intermediate stages of production.

Cash, bank and overdrafts

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

Research and development

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

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

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible, NHS

foundation trusts disclose the total amount of research and development expenditure charged in the income and expenditure account separately. However, where research and development activity cannot be separated from patient care activity it cannot be identified and is therefore not separately disclosed.

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

Provisions

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

Contingent assets and contingent liabilities

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in the notes to the accounts where an inflow of economic benefits is probable. Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- a) possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- b) present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trusts pay an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed in Note 16 to the Accounts.

Non-clinical risk pooling

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

Pension costs

NHS Pensions scheme

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.pensions.nhsbsa.nhs.uk. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities.

Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation. Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued. The valuation of the Scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

Scheme provisions as at 31 March 2009

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse. Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable. For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

Scheme provisions from 1 April 2009

From 1 April 2009 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website.

Other Pension schemes

Some NHS foundation trusts additionally have staff who are not members of the NHS Pension Scheme but of other pension schemes. These are listed below and for further details please refer to the individual trust's accounts:

Trust	Pension Scheme
Camden and Islington NHS foundation trust	London Borough of Islington pension scheme
Hertfordshire Partnership NHS foundation trust	Hertfordshire Local Government Pension Scheme (LGPS)
Lincolnshire Partnership NHS foundation trust	Local Government Pension Scheme (LGPS)
Rotherham Doncaster and South Humber Mental Health NHS foundation trust	Local Government Pension Scheme (LGPS)
Sandwell Mental Health and Social Care NHS foundation trust	West Midlands Metropolitan Authorities Pension Fund.
Sheffield Health and Social Care NHS foundation trust	South Yorkshire Pensions Authority
The Tavistock and Portman NHS foundation trust	Teachers Pensions Scheme (England and Wales)

Foreign exchange

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

Third party assets

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

Leases

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

Public dividend capital

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

Financial Instruments

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

Assets:

- Investments
- Long-term debtors and accrued income
- Short-term debtors and accrued income

Liabilities:

- Loans and overdrafts
- Long-term creditors
- Provisions arising from contractual arrangements
- Finance lease obligations

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with a NHS foundation trusts' normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made.

All other financial assets and financial liabilities are recognised when a NHS foundation trust becomes a party to the contractual provisions of the instrument.

De-recognition

Financial assets are no longer recognised (de-recognised) when the rights to receive cashflows from the assets have expired or a NHS foundation trust has transferred substantially all of the risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Financial assets and financial liabilities at 'Fair Value through Income and Expenditure'

NHS foundation trusts do not use derivative financial instruments to hedge exposures to interest or currency rate fluctuations. However, some contracts entered into by NHS foundation trusts may contain embedded derivatives as defined by FRS26 (derivatives that form part of another contract and cannot be transferred independently). These trusts determine if the economic characteristics and risks of the embedded derivative are closely related to those of the host contract. If this is not the case then the whole contract is accounted for 'at fair value through profit and loss', that is, changes in fair value of the whole contract go through the income and expenditure account.

Classification and Measurement

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets. NHS foundation trusts' loans and receivables comprise NHS debtors, accrued income, other debtors, current asset investments and cash at bank and in hand.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest on loans and receivables is calculated using the effective interest method and credited to the income and expenditure account.

Financial Liabilities

All financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts, exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities except for amounts payable more than 12 months after the balance sheet date, which are classified as long-term liabilities. NHS foundation trust's financial liabilities comprise NHS creditors, other creditors and accruals. Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to the income and expenditure account.

Determination of fair value

Fair value is determined from market prices, independent appraisals and discounted cashflow analysis as appropriate to the financial asset or liability. Where required, cashflows are discounted at H.M.Treasury's discount rate of 2.2%.

Impairment of Financial Assets

At the balance sheet date, the Trust assesses whether any financial asset is impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cashflows of the asset.

Consistent with the measurement of financial assets at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the income and expenditure account and in the case of trade debtors, the carrying amount of the asset is reduced through the use of an allowance for irrecoverable amounts, and for other financial assets the carrying amount is reduced directly.

Bad debt provisions are calculated based on the Trust's bad debt provision policy which prescribes rates of provision based on the type of debtor, ageing of the outstanding debt and knowledge of specific queried balances.

2 Segmental Reporting

	2008/09	2008/09	2008/09	Restated
	Total	Healthcare	Other	2007/08
	(£ million)	(£ million)	(£ million)	(£ million)
Income from activities	19,928.8	19,896.5	32.3	14,061.8
Other operating income	2,840.3	2,748.0	92.3	2,110.6
Total income	22,769.1	22,644.5	124.6	16,172.4
Surplus/(deficit) before interest and common costs	1,301.7	1,302.6	(0.9)	1,033.1
Common costs	(641.8)	(641.7)	(0.1)	(373.4)
Surplus/(deficit) before interest	659.9	660.9	(1.0)	659.7
Total assets employed	17,089.9	17,086.5	3.4	14,029.1

This information is compiled from segmental analysis within NHS foundation trusts' audited accounts. Six NHS foundation trusts reported more than one segment.

Guy's and St Thomas' NHS foundation trust has not reported the results of the different segments of its activities separately because it is the opinion of their Directors that this would be seriously prejudicial to the interests of both their Trust and its related parties.

3 Income from activities

3.1 Income from activities - by activity

	2008-09	Restated
	(£ million)	2007-08
	(£ million)	(£ million)
Acute NHS foundation trusts		
Elective income	3,674.4	2,888.5
Non elective income	4,828.3	3,650.5
Outpatient income	2,785.3	2,074.9
Other NHS clinical income	4,149.6	3,135.2
A&E income	495.0	393.3
Acute NHS foundation trust income	15,932.6	12,142.4
Mental health NHS foundation trusts		
Cost & volume contract income	351.5	90.3
Block contract income	2,738.4	1,369.1
Clinical partnerships providing mandatory services (including S31 agreements)	117.5	79.6
Clinical income for the secondary commissioning of mandatory services	56.6	20.6
Other clinical income from mandatory services	132.8	73.4
Mental health NHS foundation trust income	3,396.8	1,633.0
All NHS foundation trusts		
PBR relief	36.2	29.1
Private patient income	190.1	165.6
Other non-protected clinical income	373.1	91.7
Total income from activities	19,928.8	14,061.8

Prior year opening balances and comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

3.2 Income from activities - by source

	2008-09 (£ million)	Restated 2007-08 (£ million)
NHS trusts	31.0	34.4
Strategic Health Authorities	158.4	102.5
Primary Care Trusts	17,812.1	12,498.4
Local Authorities	385.6	190.4
Department of Health - grants	29.5	22.9
Department of Health - other	1,044.0	844.1
NHS other	93.1	87.9
Non-NHS: private patients	190.1	165.6
Non-NHS: overseas patients (non-reciprocal)	8.0	9.5
NHS injury scheme	75.7	47.0
Non-NHS: other	101.3	59.1
Total income from activities	19,928.8	14,061.8

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

3.3 Private patient income

NHS foundation trusts received £190.1 million of private patient income in 2008-09 (2007-08 restated: £165.6 million). This figure represents 1.1% of the total patient related income of NHS foundation trusts in 2008-09 (2007-08: 1.3%).

At the time of authorisation of each NHS foundation trust Monitor sets a limit, expressed as a percentage of the NHS foundation trust's total patient related income, for the amount of private patient income that that NHS foundation trust can generate (the Private Patient Income Cap). In their annual audited accounts NHS foundation trusts disclose the actual percentage of patient related income which private patient income comprises. For 2008-09, no NHS foundation trust breached their Private Patient Income cap.

4 Other operating income

	2008-09 (£ million)	Restated 2007-08 (£ million)
Research and development	257.1	219.1
Education and training	1,095.4	836.4
Charitable and other contributions to expenditure	42.9	39.0
Transfers from the donated asset reserve in respect of depreciation, impairment and disposal of donated assets	49.4	42.9
Non-patient care services to other bodies	551.7	376.4
Other *	843.8	596.8
Total other operating income	2,840.3	2,110.6

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

* Other operating income in 2008-09 includes income from :

	(£ million)
Pharmacy sales	103.9
Staff recharges	72.3
Car parking	58.8
Catering	52.1
Grossing up consortium arrangements	46.1
Clinical excellence awards	40.2
Estates recharges	26.4
Staff accommodation rentals	24.3
Property rentals	21.3
Clinical tests	17.7
Creche services	14.5
IT recharges	4.4
Other	361.8
TOTAL	843.8

A detailed breakdown of other operating income has only been collected by Monitor from 2008-09 so no comparative data can be provided.

5.1 Operating expenses

	2008-09 (£ million)	Restated 2007-08 (£ million)
Purchased services from NHS trusts	171.4	137.5
Purchased services from other NHS bodies	160.0	120.4
Purchase of healthcare from non NHS bodies	222.7	134.8
Executive directors costs	96.5	66.6
Non-executive directors costs	13.2	8.7
Staff costs	14,142.0	9,820.4
Drug costs	1,526.7	1,128.6
Supplies and services - clinical (excluding drug costs)	1,825.0	1,423.4
Supplies and services - general	444.6	313.1
Establishment	360.2	222.7
Research and development	31.8	19.1
Transport	98.6	59.3
Premises	1,256.4	854.3
Increase in bad debt provision	15.1	16.1
Depreciation and amortisation	715.9	535.5
Audit fees	8.1	5.9
Other auditors remuneration *	2.7	1.6
Clinical negligence	171.5	143.2
Net Increase in provisions	30.7	74.8
Other **	568.7	299.0
Total operating expenses	21,861.8	15,385.0

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

* Other auditors remuneration includes	(£ million)
assurance services	1.4
other services	1.3
TOTAL	2.7

Thirty three NHS foundation trusts have a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit ranges between £1 million and £5 million.

** Operating expenses other in 2008-09 includes	(£ million)
Consultancy costs	129.2
Training, courses and conferences	53.2
Services, eg external payroll	38.6
Legal fees	22.5
Patient travel	15.1
Insurance	14.4
Losses, ex gratia & special payments	8.3
Grossing up consortium arrangements	8.1
Redundancy costs	6.8
Car parking & Security	5.0
Publishing	2.2
Hospitality	2.0
Early retirements	1.9
Other	261.4
TOTAL	568.7

A detailed breakdown of operating expenses other has only been collected by Monitor from 2008-09 so no comparative data can be provided.

5.2 Hire and operating lease rentals

Operating expenses are stated after charging the following in respect of operating lease rentals:

	2008-09	Restated
	(£ million)	2007-08
		(£ million)
Hire of plant and machinery	47.1	41.8
Other operating lease rentals	203.4	120.4
Total hire and operating lease rentals	250.5	162.2

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

	Land & buildings	Other
	(£ million)	(£ million)
Expiring within one year	8.1	14.9
Expiring between one and five years	24.4	55.2
Expiring after five years	167.4	11.7
Total committed hire and operating lease payments for 2009/10	199.9	81.8

5.3 The late payment of commercial debts (Interest) act 1998

In 2008-09 five NHS foundation trusts (Berkshire Healthcare NHS foundation trust, Colchester Hospital University NHS Foundation Trust, King's College Hospital NHS foundation trust, South London and Maudsley NHS foundation trust and University Hospitals Bristol NHS Foundation Trust) incurred expenditure arising from claims made under this legislation. The total amounts paid in respect of both interest and debt recovery costs reimbursed was less than £23,000.

In 2007-08 two NHS foundation trusts (Berkshire Healthcare NHS foundation trust and Papworth Hospital NHS foundation trust) incurred expenditure arising from claims made under this legislation. The total amounts paid in respect of both interest and debt recovery costs reimbursed in that year was less than £3,000.

6.1 Staff costs

	2008-09	Restated 2007-08
	Total	Total
	(£ million)	(£ million)
Salaries and wages	11,476.1	8,058.3
Social security costs	890.8	628.1
Employers contributions to NHS Pensions scheme	1,307.8	902.5
Other pension costs	3.8	3.0
Agency/contract staff	622.1	324.8
Total staff costs	14,300.6	9,916.7

Staff costs here and in note 5.1 differ by the cost of staff seconded between NHS organisations, the cost of staff recharged between NHS organisations, staff cost capitalised and staff costs classified as research & development expenditure.

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

6.2 Staff numbers (whole time equivalents)

	2008-09	Restated 2007-08
	Total	Total
Medical and dental	42,936	32,648
Ambulance staff	16	17
Administration and estates	83,675	62,070
Healthcare assistants and other support staff	52,453	38,064
Nursing, midwifery and health visiting staff	136,353	102,107
Nursing, midwifery and health visiting learners	2,818	2,676
Scientific, therapeutic and technical staff	54,334	40,630
Social care staff	2,151	1,132
Bank and agency staff	18,560	11,824
Other	4,900	3,106
Total staff numbers	398,196	294,274

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

6.3 Staff Benefits

The amount spent on staff benefits during the year totalled £2.6 million (2007-08 restated: £1.5 million).

6.4 Pensions

All NHS foundation trusts participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the regulations of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS foundation trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury. For 2008-09, the contribution rate was 14% (2007-08: 14%)

6.5 Retirements due to ill health

During 2008-09 there were 517 retirements on the grounds of ill-health (2007-08: restated 422). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) will be £30.8 million (2007-08 restated: £21.6 million).

7 Exceptional items

	2008-09 (£ million)	2007-08 (£ million)
Tavistock and Portman NHS Foundation Trust	(0.3)	0.0
North Essex Partnership NHS foundation trust	(0.3)	0.0
Hertfordshire Partnership NHS foundation trust	7.8	0.0
Southend University Hospitals NHS foundation trust	(0.6)	0.0
Cheshire & Wirral Partnership NHS Foundation Trust	0.0	(0.1)
City Hospitals Sunderland NHS foundation Trust	0.0	(0.3)
County Durham and Darlington NHS Foundation Trust	0.0	(0.2)
East London NHS Foundation Trust	0.0	(0.4)
2gether NHS Foundation Trust (formerly known as Gloucestershire Partnership)	0.0	(0.3)
North Tees and Hartlepool NHS Foundation Trust	0.0	(0.4)
The Royal Marsden NHS Foundation Trust	0.5	9.8
Salford Royal NHS Foundation Trust	0.0	(1.9)
Total	7.1	6.2

2008-09 :

Exceptional costs at Tavistock and Portman NHS Foundation Trust arise from a provision for compensation potentially due under the Landlord and Tenant Act 1954 as the trust has given notice to a tenant that the tenant's lease will not be renewed.

Exceptional costs at North Essex Partnership NHS Foundation Trust arise from the early retirement of its chief executive.

Exceptional income at Hertfordshire Partnership NHS Foundation Trust arises from the reversal of provisions for charges previously made in the balance sheet not materialising

Exceptional costs at Southend University Hospitals NHS Foundation Trust arise mainly from a provision for annual leave entitlement not taken at the end of the financial year.

Exceptional income at The Royal Marsden NHS Foundation Trust again refers to income arising from the fire (see below).

2007-08 :

Exceptional costs at Cheshire & Wirral Partnership NHS Foundation Trust, County Durham and Darlington NHS Foundation Trust, East London NHS Foundation Trust, 2gether NHS Foundation Trust (formerly known as Gloucestershire Partnership NHS Foundation Trust), North Tees and Hartlepool NHS Foundation Trust and City Hospitals Sunderland NHS Foundation Trust mainly comprise redundancy costs.

Exceptional income at The Royal Marsden NHS Foundation Trust was a gain on the destruction of fixed assets. This reflects insurance and other compensatory income arising on the destruction of a part of the trust's estate due to a fire.

Exceptional costs at Salford Royal NHS Foundation Trust comprise a capital to revenue virement actioned by the Department of Health for the Trust to transfer £1.9m of PDC funding to revenue to fund a Section 278 Agreement with Salford City Council.

8 Profit / (loss) on disposal of fixed assets

	2008-09 (£ million)	2007-08 (£ million)
Loss on disposal of intangible fixed assets	(0.1)	0.0
Profit on disposal of land and buildings	5.3	6.4
Loss on disposal of land and buildings	(2.5)	(2.4)
Profit on disposal of other tangible fixed assets	1.1	0.1
Loss on disposal of other tangible fixed assets	(4.2)	(5.2)
Total profit (loss) on disposal of fixed assets	(0.4)	(1.1)

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

9.1 Finance Income - interest receivable

	2008-09 (£ million)	Restated 2007-08 (£ million)
Interest on loans and receivables	69.1	69.9
Interest on held-to-maturity financial assets	6.0	5.8
Other	38.9	32.2
Total interest receivable	114.0	107.9

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

There is no interest on impaired financial assets included in finance income above.

9.2 Finance cost - interest payable

	2008-09 (£ million)	Restated 2007-08 (£ million)
Loans from the Foundation Trust Financing Facility	9.1	6.1
Commercial loans	0.2	0.0
Overdrafts	0.0	0.2
Finance leases	4.1	3.0
Other	0.9	0.4
Total interest payable	14.3	9.7

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

10 Intangible fixed assets

	Software licences (£ million)	Development expenditure (£ million)	Goodwill * (£ million)	Other (£ million)	Total (£ million)
Gross cost at 1 April 2008	78.0	1.0	0.0	0.2	79.2
Gross cost at start of period for new NHS foundation trusts	20.2	0.0	0.9	0.5	21.6
Impairments	0.0	0.0	0.0	0.0	0.0
Reclassifications	4.7	0.0	0.0	0.0	4.7
Other revaluations	0.0	0.0	0.0	0.5	0.5
Additions - purchased	18.2	0.5	0.0	0.0	18.7
Additions - donated	0.1	0.0	0.0	0.0	0.1
Disposals	(1.6)	0.0	0.0	(0.2)	(1.8)
Gross cost at 31 March 2009	119.6	1.5	0.9	1.0	123.0
Amortisation at 1 April 2008	30.5	0.4	0.0	0.0	30.9
Amortisation at start of period for new NHS foundation trusts	7.2	0.0	0.7	0.0	7.9
Provided during the year	13.5	0.1	0.0	0.0	13.6
Impairments	2.2	0.0	0.0	0.1	2.3
Reclassifications	2.0	0.0	0.0	0.0	2.0
Disposals	(1.5)	0.0	0.0	0.0	(1.5)
Amortisation at 31 March 2009	53.9	0.5	0.7	0.1	55.2
NBV - purchased at 1 April 2008	47.2	0.6	0.0	0.2	48.0
NBV - donated at 1 April 2008	0.3	0.0	0.0	0.0	0.3
NBV total at 1 April 2008	47.5	0.6	0.0	0.2	48.3
NBV - purchased at 31 March 2009	63.9	1.0	0.2	0.9	66.0
NBV - donated at 31 March 2009	1.8	0.0	0.0	0.0	1.8
NBV total at 31 March 2009	65.7	1.0	0.2	0.9	67.8

NHS foundation trusts do not own any of the following type of intangible assets: licenses, trademarks and patents.

* East Kent Hospitals University NHS Foundation Trust has a subsidiary company, Healthex Limited. Healthex Limited is itself the parent company of East Kent Medical Services Limited which provides healthcare to NHS and private patients at the Spencer Wing, Queen Elizabeth the Queen Mother Hospital, Margate and to private patients at William Harvey Hospital, Ashford. All the goodwill in this account arises from the consolidation of Healthex Limited into the accounts of East Kent Hospitals University NHS Foundation Trust.

	Land (£ million)	Buildings excl. Dwellings (£ million)	Dwellings (£ million)	AUC & Payments on account (£ million)	Plant & Machinery (£ million)	Transport Equipment (£ million)	IT (£ million)	Furniture & Fittings (£ million)	Total (£ million)
Restated	3,059.7	9,064.5	153.3	382.8	2,288.3	21.8	641.6	158.1	15,770.1
	5.6	(0.4)	1.3	(0.1)	2.8	0.1	(1.0)	0.1	8.4
	3,065.3	9,064.1	154.6	382.7	2,291.1	21.9	640.6	158.2	15,778.5
HS	883.0	2,160.7	51.5	170.8	604.4	5.0	142.0	57.0	4,074.4
	15.7	313.5	4.0	597.6	183.2	1.0	76.2	12.5	1,203.7
	0.0	5.8	0.0	25.4	21.8	0.1	0.6	0.3	54.0
	(237.7)	(315.3)	(17.9)	(2.9)	(1.6)	0.0	(0.1)	0.0	(575.5)
	9.0	411.7	(1.7)	(435.6)	55.8	0.2	21.1	13.4	73.9
	(453.6)	(417.9)	(6.4)	0.6	22.5	0.2	0.5	1.5	(852.6)
	(35.2)	(112.6)	(2.6)	(1.6)	(143.1)	(2.3)	(38.6)	(7.2)	(343.2)
	3,246.5	11,110.0	181.5	737.0	3,034.1	26.1	842.3	235.7	19,413.2
Restated	2.4	642.5	12.6	0.0	1,428.9	16.8	386.2	94.2	2,583.6
	(0.1)	(7.7)	(3.6)	0.0	2.8	0.0	(0.7)	0.2	(9.1)
	2.3	634.8	9.0	0.0	1,431.7	16.8	385.5	94.4	2,574.5
Foundation	0.0	73.0	1.9	0.0	414.9	3.9	82.1	38.2	614.0
	0.0	389.1	7.1	0.0	205.6	1.6	85.2	13.7	702.3
	13.3	3.9	0.1	0.0	(0.5)	0.0	0.0	0.0	16.8
	0.0	(1.9)	0.0	0.0	0.0	0.0	0.0	0.0	(1.9)
	0.0	79.3	0.0	0.0	(0.2)	0.0	(2.0)	(0.4)	76.7
	(0.1)	(195.3)	(1.7)	0.0	13.2	0.2	0.2	0.8	(182.7)
	0.0	(49.3)	(0.6)	0.0	(138.4)	(2.2)	(38.3)	(7.1)	(235.9)
	15.5	933.6	15.8	0.0	1,926.3	20.3	512.7	139.6	3,563.8
	2,981.0	7,941.3	144.2	349.3	756.4	4.5	251.6	59.7	12,488.0
	82.0	488.0	1.4	33.4	103.0	0.6	3.5	4.1	716.0
	3,063.0	8,429.3	145.6	382.7	859.4	5.1	255.1	63.8	13,204.0
	3,160.7	9,548.3	164.6	705.9	979.5	5.3	324.4	89.6	14,978.3
	70.3	628.1	1.1	31.1	128.3	0.5	5.2	6.5	871.1
	3,231.0	10,176.4	165.7	737.0	1,107.8	5.8	329.6	96.1	15,849.4

Assets have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.
 Depreciation and asset accounting policies please see page 18.

31 Mar 2009									Restated 31 Mar 2008
Total (£ million)	Land (£ million)	Buildings excl. Dwellings (£ million)	Dwellings (£ million)	AUC & Payments on account (£ million)	Plant & Machinery (£ million)	Transport Equipment (£ million)	IT (£ million)	Furniture & Fittings (£ million)	Total (£ million)
11,649.3	2,609.5	8,997.2	42.6	0.0	0.0	0.0	0.0	0.0	10,198.9
4,200.1	621.5	1,179.2	123.0	737.0	1,107.8	5.7	329.6	96.3	3,005.1
15,849.4	3,231.0	10,176.4	165.6	737.0	1,107.8	5.7	329.6	96.3	13,204.0

book value, by ownership

31 Mar 2009	31 Mar 2009	31 Mar 2009	Restated 31 Mar 2008	Restated 31 Mar 2008	Restated 31 Mar 2008
Total (£ million)	Protected (£ million)	Unprotected (£ million)	Total (£ million)	Protected (£ million)	Unprotected (£ million)
13,224.9	11,356.0	1,868.9	11,189.7	9,721.0	1,468.7
328.6	279.7	48.9	439.6	393.5	46.1
19.6	13.6	6.0	8.6	3.4	5.2
13,573.1	11,649.3	1,923.8	11,637.9	10,117.9	1,520.0

at open market value

Total (£ million)	Land (£ million)	Buildings excl. Dwellings (£ million)	Dwellings (£ million)
3,430.0	1,751.0	907.0	772.0
3,246.3	1,494.5	1,087.0	664.8

to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

held under finance leases and hire purchase contracts

Total million)	Land (£ million)	Buildings excl. Dwellings (£ million)	Dwellings (£ million)	AUC & Payments on account (£ million)	Plant & Machinery (£ million)	Transport Equipment (£ million)	IT (£ million)	Furniture & Fittings (£ million)
43.1	4.3	33.2	5.4	0.0	0.2	0.0	0.0	0.0
60.9	3.6	50.9	4.9	0.2	0.5	0.1	0.0	0.7

held under finance leases and hire purchase contracts

Total million)	Land (£ million)	Buildings excl. Dwellings (£ million)	Dwellings (£ million)	AUC & Payments on account (£ million)	Plant & Machinery (£ million)	Transport Equipment (£ million)	IT (£ million)	Furniture & Fittings (£ million)
2.1	0.0	1.5	0.6	0.0	0.0	0.0	0.0	0.0
2.5	0.0	2.0	0.3	0.0	0.1	0.1	0.0	0.0

	2008-09 (£ million)	2007-08 (£ million)
	6.9	17.2
tion	3.2	1.1
	2.5	1.0
	5.2	21.3
	143.0	143.2
	431.9	68.1
	592.7	251.9

	31 Mar 2009 (£ million)	Restated 31 Mar 2008 (£ million)
	286.2	214.6
	0.8	0.4
	9.7	7.4
	296.7	222.4

13.1 Debtors	31 Mar 2009	Restated 31 Mar 2008
	(£ million)	(£ million)
Amounts due within one year		
NHS debtors	613.2	438.8
Other debtors	399.3	295.5
Provision for impaired debtors	(99.2)	(90.0)
Prepayments	124.1	86.8
Accrued income	115.9	97.9
Total debtors falling due within one year	1,153.3	829.0
Amounts due after more than one year		
NHS debtors	40.1	33.0
Other debtors	163.0	108.2
Provision for impaired debtors	(2.6)	(3.4)
Prepayments	240.7	67.8
Accrued income	54.2	36.0
Total debtors falling due after more than one year	495.4	241.6
Total debtors	1,648.7	1,070.6

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

13.2 Provision for impairment of debtors	2008-09	2007-08
	(£ million)	(£ million)
At 1 April	93.4	68.3
At start of period for new NHS foundation trusts	8.5	7.6
In year provision for impairment of debtors	39.9	45.1
Debtors written off during the year as uncollectable	(17.7)	(12.7)
Unused provisions reversed	(22.3)	(14.9)
Provision for impairment of debtors at 31 March	101.8	93.4

13.3 Analysis of ageing of overdue and impaired debtors	31 Mar 2009	31 Mar 2008
	(£ million)	(£ million)
Ageing of debtors against which provisions have been made		
Up to three months	34.5	32.8
In three to six months	12.1	9.6
Over six months	65.7	51.0
Total carrying value of impaired debtors	112.3	93.4
Ageing of non-impaired debtors past their due date		
Up to three months	339.2	177.6
In three to six months	45.9	22.7
Over six months	190.5	89.2
Total non-impaired debtors past their due date	575.6	289.5

Prior year opening balances and comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

14 Current asset investments	2008/09	restated
	(£ million)	2007/08
		(£ million)
Cost or valuation at 1 April	380.5	228.0
Cost or valuation at start of period for new NHS foundation trusts	25.1	6.7
Additions	2,406.1	4,415.5
Disposals	(2,553.5)	(4,269.8)
Impairments of investments held at amortised cost or fair value	(0.5)	0.0
Other revaluations	0.0	0.1
Total current asset investments at cost or valuation at 31 March	257.7	380.5

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

15.1 Creditors	31 Mar 2009	Restated
	(£ million)	31 Mar 2008
		(£ million)
Amounts due within one year		
Bank overdrafts	0.0	8.7
Current installments due on loans	23.9	13.6
Payments received on account	84.9	114.7
NHS creditors	348.8	313.7
Corporation tax payable	0.1	0.8
Other tax and social security costs	339.0	228.5
Obligations under finance leases and HP contracts	3.8	2.3
Capital Creditors	181.0	150.2
Other Creditors	753.9	525.7
Accruals	670.3	540.8
Deferred income	413.7	337.6
Total creditors falling due within one year	2,819.4	2,236.6
Amounts due after more than one year		
Long-term loans	272.5	157.9
Obligations under finance leases and HP contracts	46.7	35.9
NHS creditors	0.7	0.5
Other	52.8	35.7
Total creditors falling due after more than one year	372.7	230.0
Total creditors	3,192.1	2,466.6

Included in the NHS creditors figures above is £71.0 million in outstanding pension contributions as 31 March 2009, and £127.9 million in respect of the liability for early retirements over 5 years, representing 181 cases.

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

15.2 Prudential Borrowing Limit

At the time of authorisation of each NHS foundation trust and on the review of each NHS foundation trust's Annual Plan, Monitor sets a borrowing limit for each NHS foundation trust based on criteria set out in Monitor's *Prudential Borrowing Code*. This borrowing limit may also be adjusted during the year. The borrowing limit comprises two parts, a limit for working capital facilities, and a limit for long-term borrowing. Each NHS foundation trust is then able to borrow up to these limits as its board of directors see fit.

	2008-09 (£ million)	Restated 2007-08 (£ million)
Total long-term borrowing limit	4,749.9	3,205.7
Working capital facility limit	1,585.7	1,227.2
Total Prudential Borrowing Limit	6,335.6	4,432.9
Long-term borrowing at 1 April	209.7	135.6
Long-term borrowing at start of period for new NHS foundation trusts	23.2	0.0
Net borrowing in year - long term	114.0	74.1
Total long-term borrowing at 31 March	346.9	209.7
Working capital borrowing at 1 April	8.7	0.3
Working capital borrowing at start of period for new NHS foundation trusts	0.0	0.0
Net (repayment) in year - working capital	(8.7)	8.4
Total working capital borrowing at 31 March	0.0	8.7

The long term borrowing limit set for each NHS foundation trust is not necessarily equal to the limit set the previous year.

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

15.3 Loans

	31 March 2009 (£ million)	Restated 31 March 2008 (£ million)
Payments of loan principal falling due:		
- within one year	23.9	13.6
- between one to two years	19.5	13.6
- between two and five years	70.4	31.9
- after five years	182.6	112.4
Total loan principal due	296.4	171.5
of which:		
- wholly repayable within 5 years	113.8	59.1
- wholly repayable after 5 years, not by instalments	0.0	0.0
- wholly repayable after 5 years by instalments	182.6	112.4
Total loan principal due	296.4	171.5

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

15.4 Finance lease obligations

	31 March 2009 (£ million)	Restated 31 March 2008 (£ million)
Leases payable:		
- within one year	6.8	4.4
- between one and five years	26.3	18.8
- after five years	87.9	79.3
Subtotal	121.0	102.5
Finance charges allocated to future periods	(70.5)	(64.3)
Net finance lease obligations	50.5	38.2

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

16 Provisions for liabilities and charges

	Total (£ million)	Pensions relating to former directors (£ million)	Pensions relating to other staff (£ million)	Other legal claims (£ million)	Other * (£ million)
At 1 April 2008, as restated	317.1	1.5	120.6	31.6	163.4
At start of period for new FT's	72.4	0.2	29.1	7.1	36.0
Arising during the year	80.5	0.0	6.8	17.0	56.7
Utilised during the year	(88.0)	(0.1)	(11.5)	(8.3)	(68.1)
Reversed unused	(49.8)	0.0	(2.7)	(5.7)	(41.4)
Unwinding of discount	3.9	0.0	3.2	0.2	0.5
Provisions for liabilities and charges at 31 March 2009	336.1	1.6	145.5	41.9	147.1

Expected timing of cashflows

Within one year	132.0	0.2	12.6	22.8	96.4
Between one and five years	86.0	0.6	45.6	12.2	27.6
After five years	118.1	0.8	87.3	6.9	23.1
Total	336.1	1.6	145.5	41.9	147.1

* Other provisions include amounts in relation to a number of potential liabilities included in the underlying accounts of some of the NHS foundation trusts. Of these, the largest relate to injury claims (£17.6 million), agenda for change pay awards (£14.7 million) and redundancy & restructuring costs (£ 3.2 million).

£1,955.3 million provision is included in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities in respect of NHS foundation trusts (2007-08: restated £1,226.9 million).

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

17 Movement in taxpayers' equity

	2008-09 (£ million)	Restated 2007-08 (£ million)
At 1 April, restated	14,029.1	9,797.7
Taxpayers' equity at start of period for new NHS foundation trusts	3,685.5	2,821.0
Surplus for the financial year	755.7	755.4
Public dividend capital dividends	(486.4)	(351.9)
Fixed asset impairments	(343.2)	(119.0)
(Deficit)/surplus from revaluations of fixed assets and current asset investments	(662.9)	847.9
New public dividend capital received	140.6	357.5
Public dividend capital (repaid) in year	(23.9)	(109.5)
Public dividend capital repayable	0.0	13.1
Other movements in public dividend capital in year	0.0	0.7
Additions in donated asset reserve	5.4	15.7
(Reductions)/additions in other reserves	(10.0)	0.5
Taxpayers' equity at 31 March	17,089.9	14,029.1

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

18 Movement in public dividend capital

	2008-09	Restated
	(£ million)	2007-08
		(£ million)
Public dividend capital at 1 April	7,803.3	5,961.2
Public dividend capital at start of period for new NHS foundation trusts	2,134.9	1,580.3
New public dividend capital received	140.6	357.5
Public dividend capital repaid in year	(23.9)	(109.5)
Public dividend capital repayable	0.0	13.1
Other movements in public dividend capital in year *	0.0	0.7
Public dividend capital at 31 March	10,054.9	7,803.3

* Other movements in 2007-08 refer to minor adjustments to public dividend capital at City Hospitals Sunderland NHS foundation trust, Gateshead Health NHS foundation trust and King's College Hospital NHS foundation trust.

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

19 Movement in reserves

	Total	Revaluation	Donated	Other	Income &
	(£ million)	Reserve	Asset	Reserves	Expenditure
		(£ million)	Reserve	(£ million)	Reserve
			(£ million)		(£ million)
At 1 April 2008, as restated	6,225.8	4,631.6	722.7	5.3	866.2
At start of period for new NHS foundation trusts	1,550.6	1,141.2	63.3	39.5	306.6
Transfer from the income and expenditure account	269.4	0.0	0.0	0.0	269.4
Fixed asset impairments	(343.2)	(340.5)	(2.7)	0.0	0.0
Deficit on revaluations of fixed assets and current asset investments	(662.9)	(641.0)	(21.9)	0.0	0.0
Transfer of realised profits/(losses) to the income and expenditure reserve	(2.8)	(51.9)	0.0	0.0	49.1
Receipt of donated assets	54.8	0.0	54.8	0.0	0.0
Transfers to the income and expenditure account for depreciation, impairment and disposal of donated assets	(49.4)	0.0	(49.4)	0.0	0.0
Other transfers between reserves	(0.8)	(82.2)	0.7	(0.5)	81.2
Movements on other reserves	(6.5)	0.0	0.0	(6.5)	0.0
Reserves at 31 March 2009	7,035.0	4,657.2	767.5	37.8	1,572.5

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

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

	2008-09 (£ million)	Restated 2007-08 (£ million)
Total operating surplus	654.1	654.6
Depreciation and amortisation	715.9	535.5
Fixed asset impairments	251.4	135.9
Fixed asset reversal of impairments	(1.9)	(3.1)
Transfer from the donated asset reserve	(49.4)	(42.9)
Other movements	9.3	1.6
Increase in stocks	(21.3)	(9.9)
(Increase)/decrease in debtors	(50.4)	103.6
Increase in creditors	107.5	436.3
(Decrease)/increase in provisions	(60.0)	14.4
Net cash inflow from operating activities before restructuring costs	1,555.2	1,826.2
Payments in respect of fundamental reorganisation/restructuring	0.0	(0.3)
Net cash inflow from operating activities	1,555.2	1,825.9

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

20.2 Reconciliation of net cash inflow to movement in net funds

	2008-09 (£ million)	Restated 2007-08 (£ million)
Increase in cash in the year	381.2	894.1
Cash inflow from new debt	(130.4)	(56.0)
Cash outflow from debt repaid and finance lease capital payments	17.6	4.9
Cash inflow from increase in liquid resources	(146.3)	145.7
Change in net funds resulting from cash flows	122.1	988.7
Non-cash changes in debt	4.9	4.5
Change in net funds	127.0	993.2
Net funds at 1 April	2,049.1	891.1
Net funds at start of period for new NHS foundation trusts	233.1	164.8
Net funds at 31 March	2,409.2	2,049.1

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

20.3 Analysis of changes in net debt

	restated At 1 Apr 2008 (£ million)	At start of period for new FTs (£ million)	Cash changes in year (£ million)	non-Cash changes in year (£ million)	At 31 March 2009 (£ million)
Cash at commercial banks and in hand	250.3	1.7	(108.6)	0.0	143.4
Cash at OPG (Office of Paymaster General)	1,636.7	237.3	481.0	0.0	2,355.0
Bank overdrafts	(8.7)	0.0	8.7	0.0	0.0
Debt due within one year	(13.6)	(6.4)	(1.6)	(2.3)	(23.9)
Debt due after one year	(157.9)	(14.2)	(100.1)	(0.3)	(272.5)
Finance leases	(38.2)	(10.3)	1.2	(3.2)	(50.5)
Current asset investments	380.5	25.0	(141.4)	(6.4)	257.7
Total net funds (debt)	2,049.1	233.1	139.2	(12.2)	2,409.2

21 Merger accounting adjustments

NHS foundation trusts are directed by Monitor to report their finances in accordance with the *NHS Foundation Trust Financial Reporting Manual* (FT FReM) published by Monitor and agreed by HM Treasury. The FT FReM requires that combinations of trusts or significant transfers of business between trusts should be accounted for by "merger accounting" whereby the prior-year accounts of a combined entity are restated as if the combination had always existed. This has resulted in the restatement of some figures throughout the accounts, of which explanations and details are set out below.

The community services formerly provided by Stockton Teaching Primary Care Trust and Hartlepool Primary Care Trust both transferred to the North Tees and Hartlepool NHS foundation trust on 1 November 2008, and the accounts of North Tees and Hartlepool NHS foundation trust have been presented as if the provision of these services had always been part of North Tees and Hartlepool NHS foundation Trust. The impact of this treatment on the accounts of North Tees and Hartlepool NHS foundation trust for the 12 months ended 31 March 2009 and the four months ended 31 March 2008, and thus on the Consolidated NHS foundation trust accounts, is as follows:

Accounting statement and description	2008-09 merger adjustment to accounts (£ million)	2007-08 merger adjustment to accounts (£ million)
Consolidated Income & expenditure account		
<i>Income from activities</i>	29.8	9.8
<i>Other operating income</i>	1.1	0.3
<i>Operating expenses</i>	<u>(30.8)</u>	<u>(10.1)</u>
<i>Operating Surplus</i>	0.1	0.0
<i>Retained surplus for the year</i>	<u>0.1</u>	<u>0.0</u>

Consolidated Balance Sheet

The net book value of the assets transferred was nil (£ 0.0) so there is no effect.

Consolidated Statement of total recognised gains and losses

There is no effect.

Cash flow statement

Net cash inflow from operating activities increased by the same amount as the retained surplus (above) in each year.

22 Prior Period Adjustments

Prior period adjustments in the 2008-09 consolidated NHS foundation trusts accounts arise from NHS foundation trusts in 2008-09 accounts correcting, restating or reclassifying 2007-08 figures.

The prior period adjustments disclosed by NHS foundation trusts in their 2008-09 accounts of their 2007-08 accounts are as follows:

The Christie NHS Foundation Trust

A PFI scheme was not previously classified as such in the accounts and residual interest £118k matched by a £118k reduction in premises expenditure, were omitted. As a consequence the opening income and expenditure reserve has been increased by £118k.

Blackpool, Fylde and Wyre Hospitals NHS Foundation Trust

Under IAS19 a £663k accrual for holiday pay made in prior year increased creditors and reduced the income and expenditure reserve by the same amount.

Greater Manchester West Mental Health NHS Trust

Due to negative revaluation reserves identified during the year in respect of two buildings, a prior period adjustment of £460k is transferred from the opening income and expenditure reserve to the revaluation reserve. Opening taxpayers equity remains unchanged.

Mid Cheshire Hospitals NHS Foundation Trust

Due to negative revaluation reserves identified a prior period adjustment of £526k is transferred from the opening income and expenditure reserve to the revaluation reserve. Opening taxpayers equity remains unchanged.

Wrightington, Wigan & Leigh NHS Foundation Trust

Due to an accounting change specified by the FT FReM 2008-09 an adjustment was made to write out assets of £504k (from the Big Lottery Fund) from the donated asset reserve to the government grant deferred income reserve (£464k) and the revaluation reserve (£39k).

The Newcastle Upon Tyne Hospitals NHS Foundation Trust

A correction to the brought forward revaluation reserve balance from previous years. A credit of £32,267k to the revaluation reserve with a debit of £12,876k to fixed assets and a debit of £19,391k to the I&E reserve.

Royal National Hospital For Rheumatic Diseases NHS Foundation Trust

Under IAS19 a £168k accrual for holiday pay increased creditors and reduced the income and expenditure reserve by the same amount.

Lancashire Teaching Hospitals NHS Foundation Trust

Due to a change in accounting policy, a number of contracts that previously incurred rental payments are now identified as finance leases resulting in an increase in fixed assets of £1,366k. The balancing entries were debit I&E reserve £984k, debit debtors £152k, credit creditors £2,502k.

Basingstoke and North Hampshire NHS Foundation Trust

*An error in the 2007-08 accounts where a lease sale was incorrectly shown as a disposal has resulted in the following restatement: - increase in land value by £502k and introduction of a deferred income balance of £900k
As a consequence of correcting this error the opening income and expenditure reserve has been decreased by the profit on disposal of £398k*

South Devon Healthcare NHS Foundation Trust

Under IAS19 a £1,304k accrual for holiday pay increased creditors and reduced the income and expenditure reserve by the same amount.

Royal Berkshire NHS Foundation Trust

Due to debit balances in the revaluation reserve a prior period adjustment of £27,741k is transferred from the opening income and expenditure reserve to the revaluation reserve. Opening taxpayers equity remains unchanged.

Cheshire and Wirral Partnership NHS Foundation Trust

Due to change in accounting policy £243k accrual for holiday pay increases creditors and reduced the income and expenditure reserve by this amount. Total reduction to opening income and expenditure reserve is £243k.

23 Contractual Capital commitments

NHS foundation trusts had entered into £426.5 million of capital commitments at 31 March 2009 (£214.4 million at 31 March 2008)

24 Post Balance Sheet events

Post balance sheet events having a material effect on the accounts are: -

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS): All NHS foundation trusts are required to implement IFRS with effect from 1 April 2009. Their 2008/09 accounts, and this consolidation, have been prepared under the existing UK GAAP regime. NHS foundation trusts will restate their 2008/09 accounts under IFRS during 2009/10. Off balance sheet private finance initiative (PFI) transactions as detailed in note 29.2 are likely to come on balance sheet under IFRS, resulting in potentially material changes to both individual NHS foundation trusts' balance sheets and the consolidated balance sheet.

Additional NHS Foundation Trusts

As at 31 March 2009 there were 115 NHS Foundation Trusts. A further 6 NHS trusts or mental health NHS trusts have been authorised since the year end as new NHS Foundation Trusts.

	Authorised
Calderstones Partnership NHS Foundation Trust	01 April 2009
Hampshire Partnership NHS Foundation Trust	01 April 2009
South Tees Hospitals NHS Foundation Trust	01 May 2009
South West Yorkshire Partnership NHS Foundation Trust	01 May 2009
Northamptonshire Healthcare NHS Foundation Trust	01 May 2009
Royal Brompton and Harefield NHS Foundation Trust	01 June 2009

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

The authorised date for issue is 10 July 2009.

25 Contingent assets and liabilities

At 31 March 2009 the net value of contingent liabilities (after allowing for recoverable amounts) was £18.8 million (2007-08: £2.6 million), while the net value of contingent assets was £1.9 million (2007-08: £0.1 million)

26 Losses and special payments

In the year there were 33,870 (2007-08: 21,007) cases of loss with a total value of £12.3 million (2007-08: £ 9.2 million) and 3,510 (2007-08: 2,577) cases of special payments with a total value of £5.8 million (2007-08: £ 4.8 million).

There was one individual case of loss or special payment in excess of £250,000 (2007-08: none). This loss of £309k by Sherwood Forest Hospitals NHS foundation trust related to the abandonment of a business case for installation of a linear accelerator and development of a radiotherapy service at Kings Mill Hospital. This loss was fully reimbursed by the local NHS Primary Care Trust (PCT).

Note: the total costs are included in the notes to the accounts, which are prepared on an accruals basis.

27 Third Party Assets

The balance of patients' money held within the NHS foundation trusts' bank accounts at 31 March 2009 was £37.8 million (31 March 2008: restated £11.7 million). This has been excluded from the balance sheet as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

28 Related Parties

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

28.1 Related party transactions

	Income (£ million)	Expenditure (£ million)
Value of transactions with board members in 2008-09	178.0	3.0
Value of transactions with other related parties in 2008-09	8,554.2	1,075.4

28.2 Related party balances

	Debtor 31 Mar 2009 (£ million)	Creditor 31 Mar 2009 (£ million)
Value of balances (other than salary) with board members	0.6	0.0
Value of balances with other related parties	304.2	204.9

29 Private Finance Initiative (PFI) schemes

The private finance initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts typically last for 30 years, during which time the facility is leased by a public body such as an NHS foundation trust.

The amendment to Financial Reporting Standard 5 on accounting for PFI contracts, and HM Treasury's Taskforce accounting guidance (Technical Note No.1 Revised "*How to account for PFI transactions*") determine the balance sheet treatment by assessing the impact of property risks, excluding separable service-related risks from the analysis. PFI schemes may appear on balance sheet or off balance sheet. The objective of PFI procurement is to provide high quality public services that represent value for money for the taxpayer. It is therefore value for money, and not the accounting treatment, which is the key determinant of whether a project should go ahead or not.

29.1 PFI schemes deemed to be on balance sheet

	2008-09 (£ million)	Restated 2007-08 (£ million)
Charges		
Gross charge to operating expenses in respect of the service element of on balance sheet PFIs	11.9	11.5
Amortisation of PFI deferred assets	0.0	0.0
Net charge to operating expenses in respect of the service element of on balance sheet PFIs	11.9	11.5
Commitments		
21st to 25th years (inclusive)	0.2	0.2
26th to 30th years (inclusive)	11.4	11.2
36th year and beyond	0.5	0.5

29.2 PFI schemes deemed to be off balance sheet

For PFI schemes deemed by individual NHS foundation trusts to be off balance sheet, the revenue charges incurred in 2008-09, the future annual revenue charges anticipated and the associated capital value excluded from the individual NHS foundation trusts' balance sheets are:

Charges	2008-09	Restated
	(£ million)	2007-08 (£ million)
Gross charge to operating expenses in respect of off balance sheet PFI transactions	364.9	205.4
Amortisation of PFI deferred assets	(2.7)	(1.8)
Net charge to operating expenses in respect of off balance sheet PFI transactions	362.2	203.6

Commitments	As at	As at
	31 Mar 2009	31 Mar 2008
	(£ million)	(£ million)
Within one year	1.5	0.5
2nd to 5th years (inclusive)	14.3	5.6
6th to 10th years (inclusive)	6.4	10.2
11th to 15th years (inclusive)	7.0	3.6
16th to 20th years (inclusive)	58.8	30.5
21st to 25th years (inclusive)	70.4	31.2
26th to 30th years (inclusive)	80.2	54.4
31st to 35th years (inclusive)	229.6	83.6
36th year and beyond	34.9	33.6

Capital Value	31 Mar 2009	Restated
	(£ million)	31 Mar 2008 (£ million)
Estimated total capital value of projects	3,784.9	2,698.7

Prior year comparatives have been restated to take account of the merger accounting adjustments and prior year adjustments set out in Notes 21 and 22.

30 Financial assets & liabilities

Financial instruments

FRS 26 and 29, Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that NHS foundation trusts have with local Primary Care Trusts and the way those Primary Care Trusts are financed, NHS foundation trusts are not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 26 and 29 mainly applies. NHS foundation trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing NHS foundation trusts in undertaking their activities.

Liquidity risk

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

Market risk - Interest rate risk

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

Credit risk

NHS foundation trust's risk profile is low with the maximum being disclosed in receivables to customers. NHS foundation trusts do not generally enter into derivatives as a financial instrument. NHS foundation trust however have reviewed their PFI and lease contracts and noted there are some credit risks identified to their host contracts. Generally these are deemed to be closely related and therefore are not required to be disclosed separately.

Foreign currency risk

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

Fair values

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

31.1 Financial assets	Total (£ million)	Loans & Receivables (£ million)	Assets at fair value		
			through the I&E (£ million)	Held to maturity (£ million)	Available for sale (£ million)
At 31 March 2009					
NHS Debtors	652.2	584.0	62.2	6.0	0.0
Other debtors	463.0	426.0	32.0	5.0	0.0
Provision for irrecoverable debts	(95.2)	(90.7)	(3.4)	(1.1)	0.0
Accrued income	170.8	162.3	8.5	0.0	0.0
Current asset investments	257.7	247.6	0.0	0.0	10.1
Cash at bank and in hand	2,498.4	2,498.4	0.0	0.0	0.0
Total at 31 March 2009	3,946.9	3,827.6	99.3	9.9	10.1
At 31 March 2008					
NHS Debtors	467.1	438.1	26.3	2.7	0.0
Other debtors	349.0	334.2	11.5	3.3	0.0
Provision for irrecoverable debts	(85.7)	(83.0)	(1.5)	(1.2)	0.0
Accrued income	132.3	127.4	4.9	0.0	0.0
Current asset investments	380.5	312.4	0.0	61.8	6.3
Cash at bank and in hand	1,887.0	1,887.0	0.0	0.0	0.0
Total at 31 March 2008	3,130.2	3,016.1	41.2	66.6	6.3

31.2 Financial liabilities

31.2 Financial liabilities	Total (£ million)	Other financial Liabilities (£ million)	Liabilities at fair value through the I&E (£ million)
At 31 March 2009			
Bank overdrafts	0.0	0.0	0.0
Loans	296.4	296.4	0.0
NHS Creditors	342.5	309.8	32.7
Other Creditors	731.2	642.0	89.2
Accruals	670.3	635.8	34.5
Capital Creditors	170.9	161.8	9.1
Finance lease obligations	50.5	50.5	0.0
Provisions under contracts	271.2	228.7	42.5
Total at 31 March 2009	2,533.0	2,325.0	208.0
At 31 March 2008			
Bank overdrafts	8.7	8.7	0.0
Loans	171.5	171.5	0.0
NHS Creditors	306.0	285.6	20.4
Other Creditors	528.8	504.5	24.3
Accruals	537.8	505.1	32.7
Capital Creditors	136.8	132.4	4.4
Finance lease obligations	38.2	38.2	0.0
Provisions under contracts	268.6	234.6	34.0
Total at 31 March 2008	1,996.4	1,880.6	115.8

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 6189912 07/09

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