



**NHS Foundation Trusts**  
**Review and Consolidated Accounts**  
**2007-08**

**Monitor – Independent Regulator  
of NHS Foundation Trusts**

**NHS Foundation Trusts: Review and  
Consolidated Accounts 2007-08**

**1 April 2007 - 31 March 2008**

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to Schedule 8, paragraph 11(5)(a) of  
the National Health Service Act 2006**

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to be printed 29 October 2008**

## Our vision

An affordable devolved healthcare system, with patients choosing, and commissioners purchasing, high quality healthcare from a range of providers who operate within a regulatory framework that incentivises professional management and financial discipline.

## Our mission

To operate a transparent and effective regulatory framework that incentivises NHS foundation trusts to be professionally managed, financially strong and capable of delivering innovative services that respond to patients and commissioners.

## Our strategy

- Describe and operate, in cooperation with others, a proportionate risk-based regulatory regime that ensures NHS foundation trusts meet their obligations and that timely, effective action is taken to prevent and remedy breaches of the terms of their authorisation;
- continue to operate a rigorous assessment process that leads to NHS foundation trusts which are legally constituted, well governed and financially strong;
- contribute to and influence the development of a devolved healthcare system that creates incentives for professionally managed, financially strong providers to be innovative and responsive;
- build understanding and support for the NHS foundation trust system and the role of Monitor through clear and effective communications; and
- evolve as a high performing organisation that attracts, develops and retains talented people.

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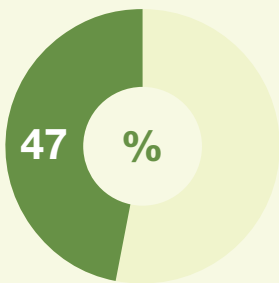
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# Foreword

# 107

**NHS foundation trusts  
which represent**



**of all acute and mental  
health trusts in England  
at 1 October 2008**

Quiet periods are not common in the NHS – the four years that have passed since Monitor authorised the first NHS foundation trusts bear testament to this. While the future shape of the NHS is, as always, the subject of much debate, there is now a broad consensus that the foundation trust model and its regulatory regime has worked – that it is delivering robust organisations able to meet the requirements of their commissioners, without central direction and with minimal intervention from their regulator.

Over the year 2007-08 the number of NHS foundation trusts increased by 51%. I am pleased that Monitor's operating expenditure fell by 4% over the same period – a testament to the risk-based regulatory approach we have taken.

This review of the year 2007-08 published together with the consolidated accounts for the sector provides evidence to support this case. In general, national healthcare targets and standards are being met, membership is increasing – now well over a million – and NHS foundation trusts have demonstrated they can maintain a strong financial base, deliver efficiencies and build surpluses to invest in improved patient care.

Within the sector some variation exists. The need for Monitor to intervene at five trusts during 2007-08 to remedy unacceptably poor MRSA performance indicates the problems that some trusts had in meeting this target. However, the Annual Health Check ratings produced this month by the Healthcare Commission show a very positive picture. Of the 107 NHS foundation trusts authorised at the point at which this report is published, only one was classified as weak in relation to its overall rating for quality of services provided or use of resources. Of the 42 trusts rated 'excellent' in both categories, 38 were NHS foundation trusts.

This may be enough to ease the doubts of those who questioned whether foundation trusts could succeed, but it is no grounds for complacency. Getting to this point is only the beginning. The challenge now facing foundation trust boards is continuously to improve the quality of care their trusts provide. That is what the Government has asked for in the Next Stage Review, and it is an objective Monitor firmly supports.

Our message is clear – yes, the basics have largely been achieved but the Next Stage Review sets a new and demanding agenda for the whole NHS healthcare system. Foundation trusts have the potential to exhibit real leadership in their response:

- in pushing forward the quality of care;
- understanding quality outcomes as recognised by both patients and clinicians;
- innovating in clinical care and management of services;
- working with commissioners to produce investment plans that will meet the health needs of local populations in the short and the long term; and
- meeting the need for increased out of hospital provision.

As the economic climate toughens, foundation trusts will be exposed to pressures just like the rest of the NHS. This will demonstrate why Monitor places such emphasis on good boards and sound financial management. If these fundamentals are in place, foundation trusts will be able to make full use of their unique freedoms to deliver ever better results for their patients.



A handwritten signature in green ink that reads "William Moyes". The signature is written in a cursive style and is underlined.

**Dr William Moyes**  
Executive Chairman

# About NHS foundation trusts

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

## **Freedoms**

NHS foundation trusts have greater freedoms than NHS trusts. These help them to develop their own services and improve the quality of care they deliver. These freedoms include:

### **Management freedoms**

NHS foundation trusts can set their own operational strategy and make their own decisions to improve services for patients, within the framework of their contracts with commissioners. With these freedoms come responsibilities. Boards of NHS foundation trusts, with the support of their members and governors, are ultimately responsible for the success or failure of their organisation.

### **Financial freedoms**

NHS foundation trusts have significant financial freedoms which provide opportunities to develop their services and performance.

These include:

- freedom to invest and retain surpluses;
- freedom to retain and invest the proceeds of land or asset sales;
- freedom to borrow up to a limit set under Monitor's Prudential Borrowing Code;
- no statutory requirement to break even; and
- freedom to develop incentives for staff outside nationally agreed frameworks.

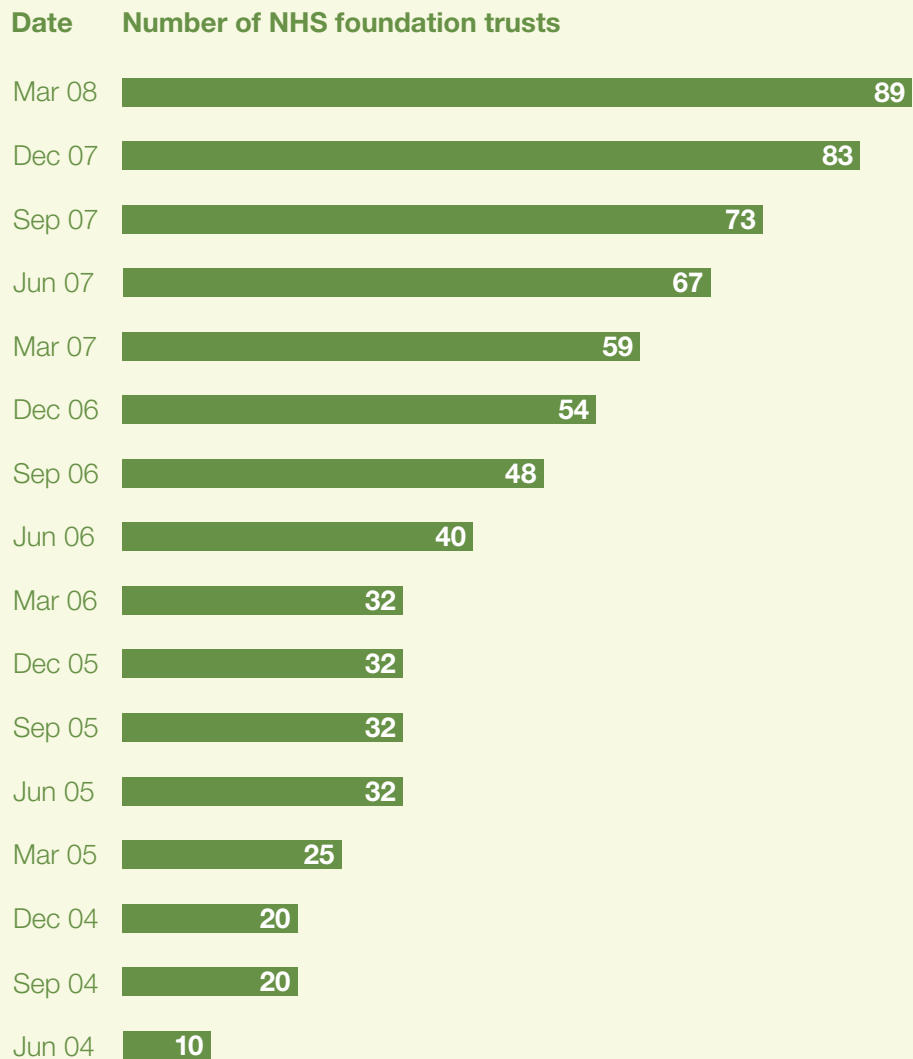
### **Accountabilities**

The freedoms afforded to NHS foundation trusts give them a greater opportunity to invest in and develop their services. Unlike NHS trusts, NHS foundation trusts are not directly performance managed by the Department of Health through strategic health authorities – they are accountable to their local communities through governors and members, their commissioners through their contracts, and to Monitor as the independent regulator.

They are also accountable to Parliament and individual NHS foundation trusts must lay their accounts before it. The consolidated accounts attached to this report fulfil the requirement for Monitor to report to Parliament on the financial performance of the NHS foundation trust sector as a whole.

**Figure 1**

**Growth in the number of NHS  
foundation trusts to 31 March 2008**





## About NHS foundation trusts

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The number of NHS foundation trusts continues to grow, increasing from 59 to 89 during 2007-08, and representing 40% of acute trusts and 36% of mental health trusts by 31 March 2008.

Monitor authorised the 100th NHS foundation trust, Pennine Care NHS Foundation Trust, on 1 July 2008. As of October 2008 there are 107 NHS foundation trusts, representing 47% of all acute and mental health trusts in England.

Figure 1 on page 7 shows how the number of NHS foundation trusts has increased since the first were authorised in 2004-05. The absence of authorisations in 2005-06 was a result of the Department of Health's review of NHS foundation trust policy during which no applications were put forward to Monitor. Since the successful conclusion of the review, numbers have grown steadily with Monitor authorising around two thirds of applicants when they are first assessed.

The Department of Health has announced that the opportunity for foundation trust status is to be extended to other types of provider. Ambulance trusts can now prepare and apply to be NHS foundation trusts, with the first ambulance trusts likely to be authorised during 2009-10. Work is also in hand to test the concept of applications for foundation trust status from providers of community services. We hope to see the first assessments beginning in 2009-10, with the first authorisation in late 2009.

There is no doubting the importance of the NHS foundation trust sector. Not only is it responsible for health services relied upon by millions of patients, but through its members, governors and non-executive directors it is also providing an increasing number of people the opportunity to be involved in decisions about how their local hospitals are run and how they will develop in the future.

**Figure 2**

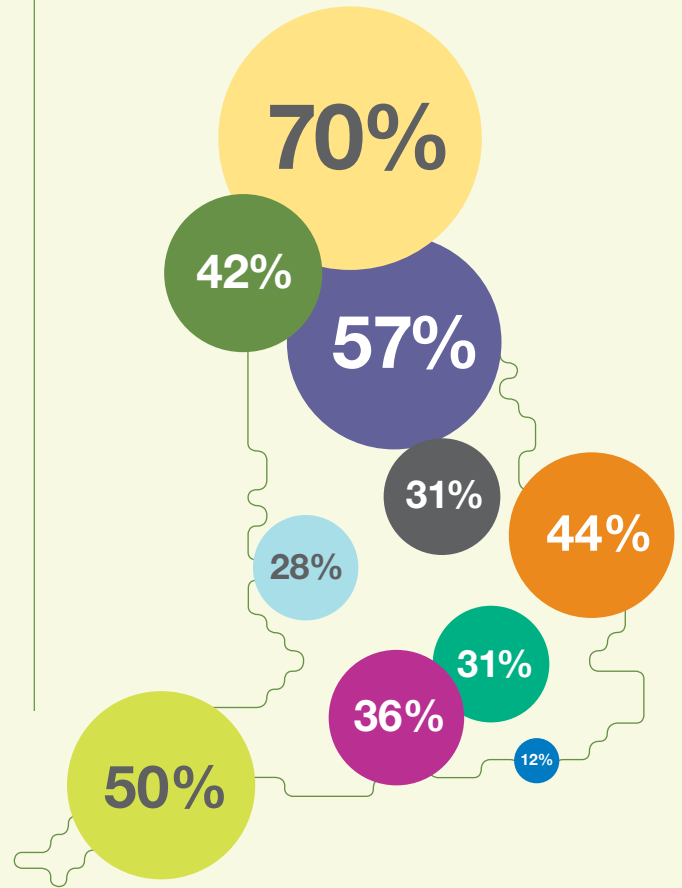
**Number of NHS foundation trusts by strategic health authority**

Figures as at 31 March 2008



**Percentage of potential NHS foundation trusts by strategic health authority**

Figures as at 31 March 2008



- North East
- East of England
- Yorkshire and the Humber
- North West
- South West
- East Midlands
- South Central
- London
- South East Coast
- West Midlands

# Review of NHS foundation trust performance in 2007-08

## Proportionate regulation

Monitor has created a system of regulation which is able to identify actual and potential financial and non-financial problems and deal with them effectively.

On authorisation, each NHS foundation trust is assigned a Monitor relationship manager who ensures that where an NHS foundation trust fails to comply with its terms of authorisation, the trust's board acts to put things right.

As the risk of a breach (and the significance of that breach) increases, so does the intensity of the monitoring and potential regulatory action. The reporting requirements, and likely action in the event of a breach, are set out in the *Compliance Framework*, which is updated and published ahead of the start of each financial year.

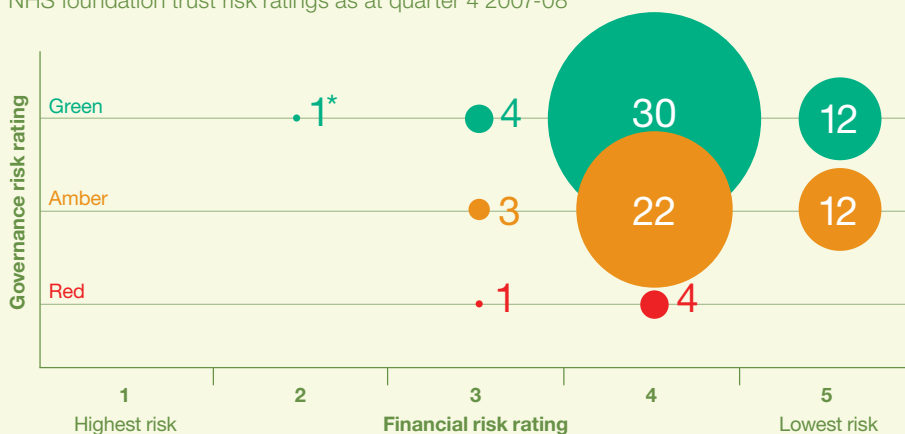
Monitor requires each NHS foundation trust board to assess its own compliance with the terms

of authorisation by submitting an annual plan and then quarterly and ad hoc reports. Actual performance is monitored against plans to identify where potential and actual problems may arise.

Monitor assigns quarterly risk ratings on finance, governance and mandatory goods and services and considers any steps that need to be taken to tackle problems where boards appear not to be addressing them in an effective manner. Pages 13 and 14 describe how this approach was applied in 2007-08 where Monitor had serious concerns about performance in tackling MRSA.

Following the end of the year, Monitor used its formal powers to intervene under Section 52 of the National Health Service Act 2006 ('the Act') at Royal National Hospital for Rheumatic Diseases NHS Foundation Trust. This was in response to serious financial governance concerns at the trust. More detail is included on page 56.

**Figure 3**  
NHS foundation trust risk ratings as at quarter 4 2007-08



\*Royal National Hospital for Rheumatic Diseases (see above)

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The intensity of monitoring and the need for regulatory action is considered on a case-by-case basis. Conversely, this also applies when an NHS foundation trust is performing well. In the second quarter of 2007-08, Queen Victoria Hospital NHS Foundation Trust qualified to move to six-monthly monitoring (from quarterly monitoring) having achieved a consistent financial risk rating of 5 and green risk ratings for governance and mandatory services.

Self certification, coupled with boards' critical appraisal of risk and actions, is key to the approach Monitor takes to its regulatory activities. In December 2007 11 NHS foundation trusts were required to commission independent reviews of their board's self-certification processes because of concerns about their approach.

In February 2008 Monitor published the findings of the reviews so lessons could be shared with all NHS foundation trust boards.

# Review of NHS foundation trust performance in 2007-08

## Measuring and delivering high-quality services

Lord Darzi's review of the NHS, published in June 2008, has set the direction for the future development of healthcare, putting the focus on quality and raising standards in the NHS. He called for "quality accounts" of the care provided by the NHS, reflecting the principles already used in the preparation of financial accounts. If improved quality of care and patient experience are to become a reality, this will require better access to more reliable and relevant data which can be used to assess the performance of NHS trusts.

Our assessment of the service performance of the NHS foundation trust sector is also reflected in the findings of the Healthcare Commission's Annual Health Check for 2007-08. These findings are outlined on pages 20 and 21.

### Reviewing governance in NHS foundation trusts

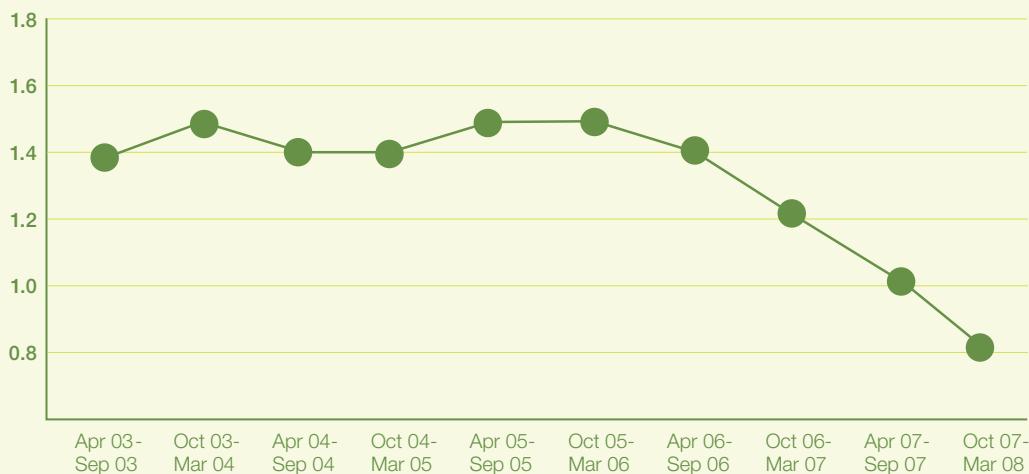
Monitor uses the achievement of specific healthcare targets as one part of its approach to measuring the effectiveness of governance in an NHS foundation trust. In taking this approach, Monitor considers the board's approach to understanding risks, its leadership and assurance processes, and the effectiveness of actions taken to rectify any shortfalls.

In 2007-08 these targets were split between:

- time taken to receive treatment (waiting times);
- number of cases of healthcare acquired infections; and
- for mental health trusts, the number of crisis resolution and early intervention teams available.

In 2007-08, healthcare acquired infections, accident and emergency waiting times and 18-week waits were a key focus.

**Figure 4**  
**MRSA infection rates:** Average estimated rate per 10,000 bed days  
 For the 89 NHS foundation trusts authorised as at 31 March 2008



### Healthcare acquired infections

MRSA and Clostridium difficile remain a major challenge for the NHS. NHS foundation trusts invested significant resources to reduce their incidence in 2007-08.

Cases of MRSA, both those acquired by patients in hospital and in the community, counted towards a trust's target in 2007-08. This required boards of NHS foundation trusts not only to identify and address the causes of cases arising in their hospitals but also to work with others to design and implement a whole healthcare economy solution. This provided an effective test of governance.

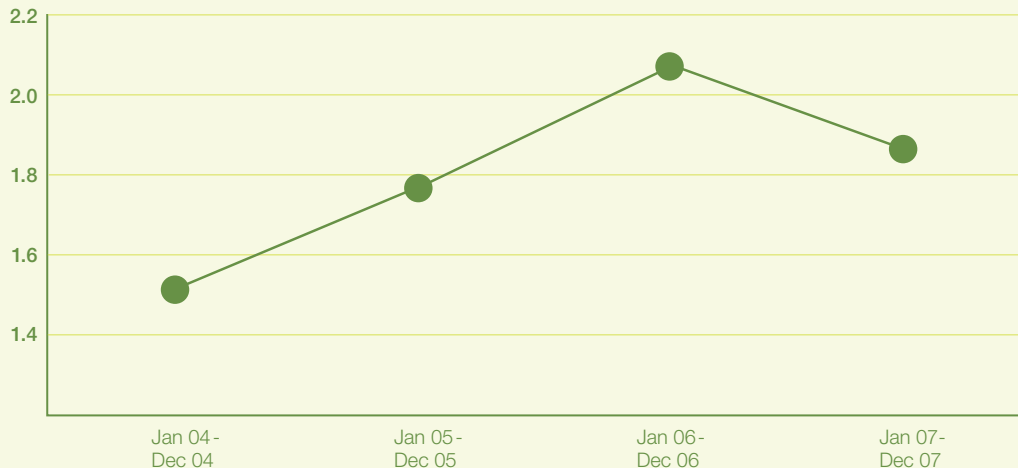
The overall number of MRSA cases in NHS foundation trusts continued to fall in 2007-08, but 36 NHS foundation trusts breached their full year MRSA target.

During the third and fourth quarters of 2007-08, eight NHS foundation trusts were subject to escalation procedures as a result of breaching their full year target and failing to reduce the number of MRSA cases on a year-on-year basis. Of these eight trusts, four (Calderdale and Huddersfield; Doncaster and Bassetlaw Hospitals; Lancashire Teaching Hospitals; and Poole Hospital) were found to be in significant breach of their terms of authorisation. These NHS foundation trusts received a red rating for governance risk at quarter four of 2007-08. If they fail to meet their MRSA target during 2008-09 Monitor may consider taking further regulatory action.

Monitor also required independent audits of infection control procedures at four other NHS foundation trusts (Heart of England; The Newcastle Upon Tyne Hospitals; University

**Figure 5**

**Clostridium difficile infection rates:** Average rate per 1,000 beds for patients older than 65 years For the 89 NHS foundation trusts authorised as at 31 March 2008



# Review of NHS foundation trust performance in 2007-08

## Measuring and delivering high-quality services

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Hospitals Birmingham; and Bradford Teaching Hospitals) which had some of the highest numbers of MRSA cases. Monitor continues to review progress by these NHS foundation trusts as they take actions necessary to meet their targets in 2008-09.

In 2008-09, MRSA will remain a key focus for Monitor as it assesses boards' capacity and capability to deliver contracted healthcare targets and to implement effective governance.

In 2007, NHS foundation trusts reduced the rate of Clostridium difficile infection by around 10%, after rises in 2005 and 2006. From 2008-09 Clostridium difficile performance is a national priority with an overall target of reducing cases by 30% within three years compared to 2007-08 levels.

Performance targets have been agreed in contracts between NHS foundation trusts and their commissioners. In 2008-09, Monitor will operate an escalation of regulatory action for Clostridium difficile, which is similar to that for MRSA.

The case study opposite shows how an NHS foundation trust approached an outbreak of Clostridium difficile in one of its hospitals.

## Case study

### James Paget University Hospitals NHS Foundation Trust

#### Tackling an outbreak of Clostridium difficile

The trust is not relaxing its efforts to deal with infection says Nick Coveney, Director of Nursing and Patient Services:

**“We recognise that our learning is not over and are continuously engaging with other organisations who have knowledge of this experience, to understand how we can further reduce Clostridium difficile and the incidence of other healthcare acquired infections. We have also produced a publication summarising our learning from the outbreak which I hope other organisations will find useful.”**

From 2004 onwards, James Paget University Hospitals NHS Foundation Trust recorded levels of Clostridium difficile activity at ‘national average’ levels. But when the trust recorded more than 65 cases in January 2007 (hospital- and community-acquired) it declared an outbreak of suspected Clostridium difficile O27 strain.

The trust was determined to deal with this problem in the shortest possible time. Advice and support was sought from a range of sources including the Health Protection Agency, the Healthcare Commission, the strategic health authority and other trusts and experts – in the UK and abroad. Monitor was kept fully informed as to progress.

A multi-agency outbreak action group was convened, including representation from the community. This group reported directly to the board.

In late January 2007, the objective was set to turn around the outbreak in 12 weeks, and a healthcare system-wide action plan was developed to achieve this. The action plan focused on four main areas:



- **contact isolation** ensuring adequate isolation facilities were available;
- **decontaminating hands** training all staff in hand washing, including bare arms and no ties;
- **antibiotic usage** Quinolones and Cephalosporins were removed from use unless approved by the Director of Infection Prevention and Control or a Microbiologist;
- **de-cluttering and decontaminating the environment** support services were restructured so that the Director of Nursing had direct control over cleaning services. The trust subsequently won an award as the cleanest hospital in England.

The Clostridium difficile outbreak action group was disbanded in April 2007 when the outbreak was officially declared over – 12 weeks after the first outbreak declaration. However, the action plan is still monitored by a joint Chief Executive led group (involving the PCT and the trust) that also monitors MRSA action plans.



# Review of NHS foundation trust performance in 2007-08

## Measuring and delivering high-quality services

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### Accident and emergency

Achieving the 4-hour accident and emergency waiting time target of 98% in 2007-08 has been, after MRSA, the most challenging target for NHS foundation trusts. It also provides a good measure of how trusts deal with operational challenges.

The continued rise in attendances and the short term increase in activity to meet the 18-weeks target have placed significant pressures on capacity. Overall, NHS foundation trusts delivered a performance of 98.4% in 2007-08, although at various times during the year some trusts failed to meet the target.

Measured on a 4-week rolling average basis, in line with the *2007-08 Compliance Framework*, a total of 37 NHS foundation trusts breached the target at some stage during the course of the year. Where there are breaches, Monitor requires an action plan from the trust, setting out how it will meet the target in future.

Two NHS foundation trusts failed to meet the 98% target for the year; Luton and Dunstable Hospital NHS Foundation Trust (97.2%) and Basildon and Thurrock University Hospitals NHS Foundation Trust (97.3%) took action during the year, as required by Monitor, to address this. Both trusts delivered performance in excess of 99% in quarter one of 2008-09.

### 18-weeks referral to treatment

The 18-weeks referral to treatment waiting time target should be reached by hospitals by 31 December 2008. *The NHS in England: Operating Framework for 2007-08* introduced two milestones to be achieved, as a minimum, by the end of March 2008, as follows:

- 85% of pathways where the patients are admitted for hospital treatment should be completed within 18 weeks; and
- 90% of pathways that do not end in admission should be completed within 18 weeks.

97% of NHS foundation trusts achieved both milestones. Overall, NHS foundation trusts achieved 89% and 94% compliance, compared with the milestones of 85% and 90% as at March 2008 (see Figure 6 below).

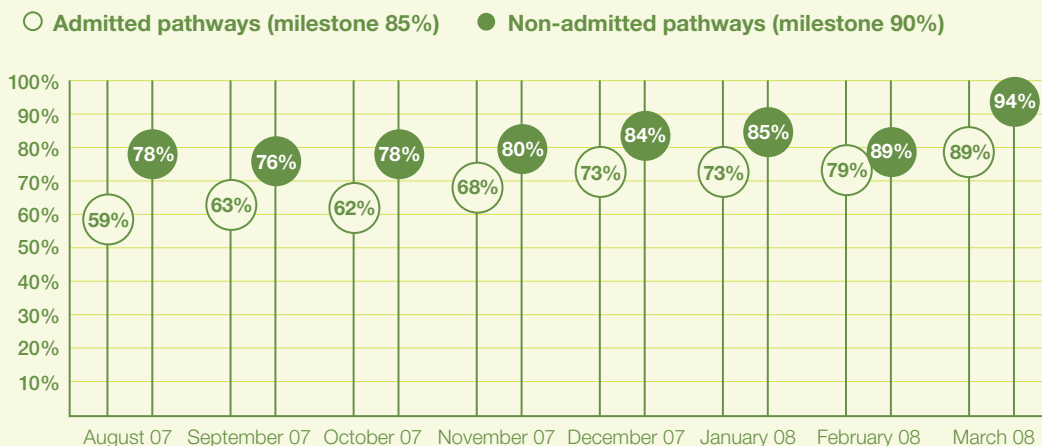
Some NHS foundation trusts were already treating almost 100% of their referred patients within 18-weeks at the end of March 2008, nine months ahead of the target date.

Although Monitor did not formally require foundation trusts to achieve the March milestones, where they did not meet these or risked not achieving the target by December 2008, we required action plans.

Two NHS foundation trusts (Peterborough and Stamford Hospitals NHS Foundation Trust and The Royal Orthopaedic Hospital NHS Foundation Trust) did not meet one or both of these milestones. Their boards have met with Monitor and provided action plans setting out how they intend to meet the targets by 31 December 2008.

**Figure 6**

NHS foundation trust performance against 18 weeks referral to treatment March 2008 milestone



# Review of NHS foundation trust performance in 2007-08

## Membership

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The membership of an NHS foundation trust is an important and distinctive feature of its governance arrangements and forms a direct link with patients, members of the public, staff and local stakeholders. Members, whether patient, staff or public, have the opportunity to influence strategy by electing or standing for election as governors.

The total number of members of NHS foundation trusts at 31 March 2008 was 1.12 million for the 89 trusts authorised at that time, up from 0.77 million at 31 March 2007 (59 NHS foundation trusts). Those NHS foundation trusts which were authorised by 31 March 2007 increased their membership by over 120,000, a 16% increase.

NHS foundation trusts continue to focus on developing a representative membership and engaging their members and governors through a variety of initiatives. The example of 2gether NHS Foundation Trust opposite shows how NHS foundation trusts are taking an innovative approach in this area.

During October 2007 Monitor surveyed NHS foundation trust governors. The majority of governors are clear about their role, have good relationships with their executive board, and are using their statutory powers to make a difference. For example, over eight in ten (84%) governors agreed that their chair was doing a good job and nearly four in five (79%) governors agreed that they were clear about their roles and responsibilities as a governor.

However, about one in six (16%) governors were dissatisfied with the level of contact they had with members of the board of directors and almost a quarter (24%) stated that full meetings of the board of governors were only productive some of the time.

Using the results of the survey and intelligence gathered during follow up events, Monitor will provide support and advice to develop the role of foundation trust governors, particularly around the use of their statutory powers. Our work with governors is intended to act as a catalyst for progress, enabling governors and boards of directors at new and existing NHS foundation trusts to benefit from the experience and best practice of other trusts.

## Case study

# 2gether NHS Foundation Trust

### Innovative ideas engage local communities

**320%**  
increased public membership since July 2007.

2gether NHS Foundation Trust (formerly known as Gloucestershire Partnership) was authorised in July 2007. At the time Monitor's Board noted its low public membership numbers. Since then the trust has used innovative ways to build this from 872 in July 2007 to 3,714 at the end of August 2008.

A DVD outlining the trust's messages about social inclusion and discrimination was played in shopping centres and to rural communities. Screenings in Gloucester, Cheltenham and Cirencester increased membership by 1,004 and screenings in the rural areas added another 615 members.

The trust is building on this work with its *Communities of Influence* project, reaching out to Gloucestershire's diverse population. In a square mile around the trust's headquarters in Gloucester over 27 different languages are spoken as a first language. As part of the project, the trust has been working with local newspapers and radio to raise its profile. Staff governors have held open events for staff and similar events are being planned for public governors.



The trust attended a Romany gathering and is working with leaders from this and other communities to ensure their views are incorporated into the trust's vision and priorities. Representatives from the Polish, Romany and Asian communities will attend an upcoming national conference with the trust's Executive Director lead on social inclusion. This is part of the work the trust is undertaking with the National Social Inclusion Programme on Communities of Influence.

2gether Chief Executive, Shaun Clee, says: "We have made a lot of progress but we still have work to do. Our challenge now is to make sure membership is meaningful. We look at our membership strategy as a three step process: awareness, then engagement and finally involvement. We have raised a lot of awareness and the next step for us is engagement. But we can't make a difference if we don't achieve all three steps."

# Review of NHS foundation trust performance in 2007-08

## Healthcare Commission

### Annual Health Check ratings

The Healthcare Commission's Annual Health Check rates all providers on the quality of their service, based on compliance with national standards for the quality of care and the delivery of national service targets. It also produces a rating for use of resources.

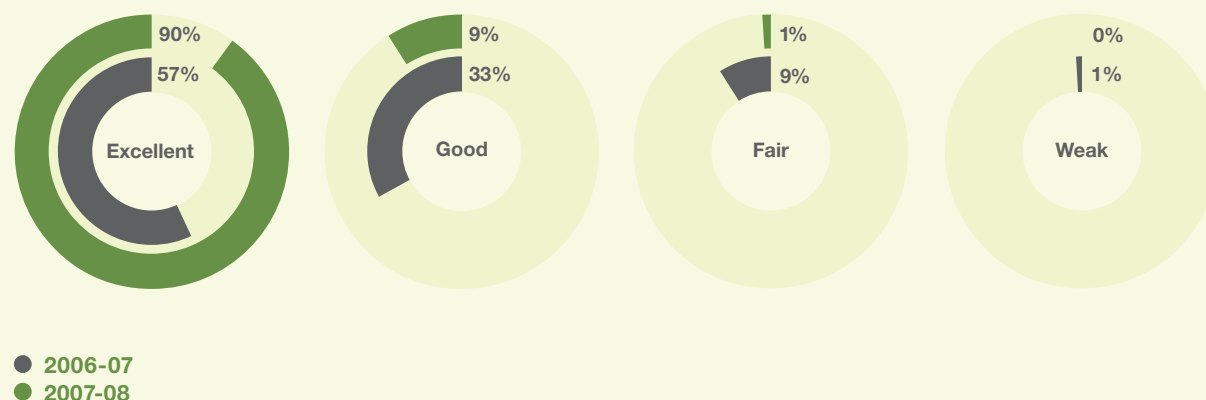
In the Annual Health Check for 2007-08, 38 NHS foundation trusts received an 'excellent' rating for both quality of services and use of resources (of 42 excellent-excellent ratings awarded across all NHS providers). This represents 47% of all foundation trusts authorised at 31 March 2008. The individual ratings for each of these 89 NHS foundation trusts are set out on pages 38-41.

Of the 89 NHS foundation trusts authorised at 31 March 2008, 49% were rated 'excellent' for the quality of their services. This represents an improvement over 2006-07 when 43% received an 'excellent' rating.

Overall, 89% of NHS foundation trusts were rated as 'excellent' or 'good' for quality of services in 2007-08 compared to 76% in 2006-07, demonstrating continued improvement in quality of services across the sector.

One NHS foundation trust, Peterborough and Stamford Hospitals, received a weak rating for quality of services as a result of not meeting existing national targets. As described in our 2006-07 review and consolidated accounts, the trust was allocated a red governance risk rating by Monitor for the third quarter of 2006-07 as a result of reporting a substantial number of patients waiting in excess of six months for orthopaedic treatment and a significant failure in the management of its orthopaedic waiting lists. Following a detailed investigation, with external and independent oversight and periodic reporting to Monitor, the situation was satisfactorily resolved by December 2007. The trust board

**Figure 7**  
Healthcare Commission's ratings for **use of resources** for the 89 NHS foundation trusts authorised at 31 March 2008, in 2006-07 and 2007-08



was also subject to external review and processes and procedures are in place to support the delivery of effective governance and compliance with national targets going forwards.

90% of NHS foundation trusts were rated 'excellent' for the use of their resources. This represents an improvement over 2006-07 when 57% received an 'excellent' rating. Overall, 99% of NHS foundation trusts were rated as 'excellent' or 'good' for use of resources in 2007-08 compared to 90% in 2006-07, reflecting financial strength across the sector.

One NHS foundation trust, Royal National Hospital for Rheumatic Diseases, received a fair rating for use of resources. This is a reflection of the serious concerns as to financial performance and governance at this trust and which, on 4 August 2008, resulted in Monitor using its formal powers of intervention (see page 56).

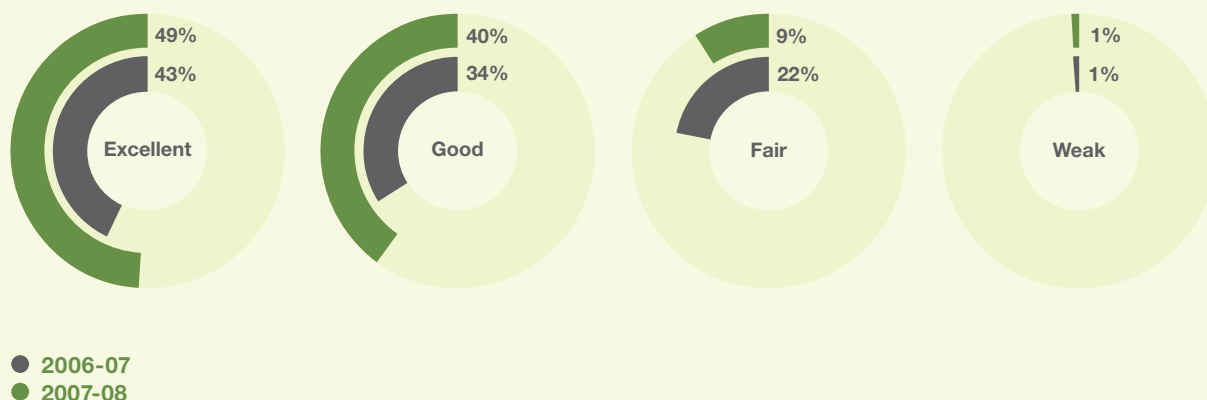
Of the 59 NHS foundation trusts authorised at 31 March 2007, the proportion of those achieving 'excellent' or 'good' for quality of services has risen from 74% to 88%. Of the 59 NHS foundation trusts, the number achieving 'excellent' or 'good' for use of resources has risen from 97% in 2006-07 to 98% in 2007-08.

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

In 2007-08, the Annual Health Check found that 90% of NHS foundation trusts 'fully met' and 10% 'almost met' core standards.

**Figure 8**

Healthcare Commission's ratings for **quality of services** for the 89 NHS foundation trusts authorised at 31 March 2008, in 2006-07 and 2007-08



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**Definitions of key finance terms used in the following section****Retained surplus/deficit**

The financial performance of the organisation after all costs including PDC dividends.

**PDC dividends**

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

**EBITDA**

Earnings before interest, tax, depreciation and amortisation – a measure of financial performance (and cash generation) which excludes the effect of financing and capital changes.

**Tariff**

A national schedule of prices for acute service provision broadly covering admitted patient care, outpatients and accident and emergency services (although a number of services are specifically excluded).

**Prudential borrowing limit**

The maximum amount of borrowing (including finance leases and similar items, and including on-balance sheet PFI schemes) that an NHS foundation trust can have outstanding at any time.

# Review of NHS foundation trust performance in 2007-08

## Delivering strong financial performance

### Introduction

In the year to 31 March 2008 the 89 NHS foundation trusts generated a retained surplus of £395.3 million. This compares with a retained deficit of £2.9 million in the previous year, and was £232 million ahead of plan.

This result reflects both the financial strength of the sector as a whole and also of individual NHS foundation trusts as set out in Figure 9 below. Of the 89 NHS foundation trusts authorised at 31 March 2008, 88<sup>1</sup> delivered a surplus in the year.

The generation and retention of surpluses allows organisations to plan, invest in and develop clinical services to improve patient care.

<sup>1</sup> After payments of PDC dividends but before impairments, profits or losses on disposals of fixed assets and exceptional items.

### Efficiency

NHS foundation trusts continue to improve efficiency as measured through increased operating margins. Monitor uses EBITDA (earnings before interest, tax, depreciation and amortisation) as a proxy for operating efficiency.

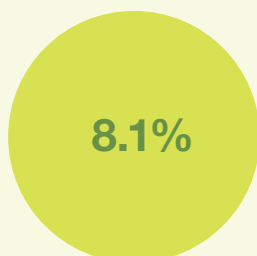
EBITDA margins for NHS foundation trusts have grown to 8.1% in 2007-08 from 6.8% in 2006-07 and 5.8% in 2005-06.

A significant contribution to productivity results from reductions in the costs of delivering required services, beyond those implicit in annual tariff uplifts. In 2007-08, NHS foundation trusts delivered cost improvement programmes equivalent to 3.1% of costs (or about £500 million) against an efficiency assumption in the tariff of 2.5%.

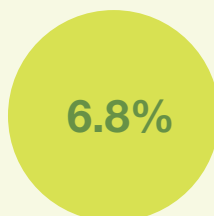
**Figure 9**

For full table of EBITDA margins by foundation trust see Chart 3 on page 32

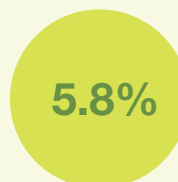
**Aggregate EBITDA  
in 2007-08**



**Aggregate EBITDA  
in 2006-07**



**Aggregate EBITDA  
in 2005-06**





# Review of NHS foundation trust performance in 2007-08

## Delivering strong financial performance

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### Cash balances

Strong financial performance, increasing efficiency and improved working capital management has seen an increase in NHS foundation trusts' cash balances. This position has been further impacted by asset sales and delays in planned capital programmes. As at 31 March 2008, NHS foundation trusts held aggregate cash balances of £2.3 billion<sup>1</sup>; £1.3 billion ahead of planned levels.

One of the factors that has contributed to the build up in cash has been caution over re-investing surpluses into the development of services. This has been in the face of some uncertainty over the future of commissioning and system reform during the year, and in particular prior to clarity of commissioning initiatives ahead of the completion of Lord Darzi's review.

<sup>1</sup> £1,893 million cash at bank and in hand and £374 million investments included in current assets.

### Capital expenditure and investment

NHS foundation trusts increased capital expenditure to acquire tangible assets in 2007-08 to £889 million (£513 million in 2006-07), significantly exceeding depreciation and amortisation charges in the year of £536 million. NHS foundation trusts continue to reinvest surpluses to improve estates, facilities and equipment.

Despite these higher levels of investment, NHS foundation trusts made limited use of their borrowing capability in 2007-08. As at 31 March 2008, borrowing was £191 million against a prudential borrowing limit (as calculated in Monitor's Prudential Borrowing Code which governs borrowing capacity) of £3,203 million.

## Case study

# Guy's and St Thomas' NHS Foundation Trust

## Investing surpluses to improve patient care

Director of Finance,  
Martin Shaw, says:

**“Generating surpluses year-on-year is allowing us to be far more ambitious. We now have the ability and confidence to aim high and to create really first class facilities. Lots of what we are doing is really exciting because the change has been so visible to patients – and their feedback has been very encouraging”.**

As an NHS foundation trust, Guy's and St Thomas' enjoys financial freedoms which allow it to create and retain financial surpluses. In 2007-08 the trust had delivered a surplus of £56 million. This in turn enabled the trust to plan short, medium and long term programmes to reinvest its surplus in improving services and enhancing the hospital environment and facilities.

This programme allows the trust to tackle backlog maintenance and make significant investment in essential infrastructure such as electrical systems and lift replacements, and still have resources left to fund its longer term strategic plans.

The trust recognises the contribution staff have played in achieving these surpluses. Whether that's the clinical staff who play an increasing role in managing finances and generating savings ideas, or staff in corporate departments such as procurement who are currently



leading the introduction of a £4 million system to manage stock control for many clinical items more safely and efficiently.

The trust is using the funds to create a clinical space that patients and staff want, and at the same time improving processes so that the whole patient experience is enhanced, the quality of the clinical care improved and the service delivery more efficient.

A good example is the urology 'one stop shop' at Guy's and St Thomas' – a new unit underpinned by innovative ways of working. Urology staff have been working with primary care trusts to look at how the service is funded, not only creating savings but also eliminating patient waits. In most cases multiple trips to hospital for tests and results have been eliminated.

The trust is also making a substantial investment in cancer services to support its cancer strategy, which spans both clinical care and research.

# Review of NHS foundation trust performance in 2007-08

## Delivering strong financial performance

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### Acquisitions by NHS foundation trusts

Service acquisitions can have a significant impact on financial risk and governance. For this reason, Monitor requires NHS foundation trusts to notify it early of any proposed major acquisitions of services, and to follow the relevant best practice guidance.

Monitor will consider the impact of the proposal on the NHS foundation trust's risk ratings. The decision is for the board of the trust, although they will want to take account of the impact of the proposal on their risk ratings when deciding whether they should proceed with the acquisition.

Monitor assessed the likely impact of the proposed acquisition of the mental health and learning disability services of Shropshire County Primary Care Trust by South Staffordshire Healthcare NHS Foundation Trust. The case study on page 27 describes how the trust managed this acquisition.

### Financial performance: the first quarter of 2008-09

NHS foundation trusts continue to deliver performance ahead of plan in 2008-09 – in the first quarter aggregate retained surplus was £153 million against a plan of £90 million.

### Investment plans for 2008-09

NHS foundation trusts are planning to significantly increase the level of capital expenditure in 2008-09 to £1,401 million. The largest capital programmes relate to redevelopment of estates, however, many NHS foundation trusts are developing detailed investment plans in response to the proposals contained within Lord Darzi's review. Increasingly these plans have a long term focus and reflect a programme of incremental development. As the availability of larger PFI funded schemes comes under scrutiny, following adoption of International Financial Reporting Standards in 2009-10, other capital funding arrangements are also being considered in the context of available cash and borrowing capacity.

## Case study

# South Staffordshire and Shropshire Healthcare NHS Foundation Trust

### Using financial freedoms to expand and improve patient care

# £42 million

**additional business for South Staffordshire and Shropshire Healthcare NHS Foundation Trust.**

On 1 June 2007, a range of clinical and support services were transferred from Shropshire County PCT to South Staffordshire Healthcare NHS Foundation Trust, generating an additional £42 million of business for the newly created South Staffordshire and Shropshire Healthcare NHS Foundation Trust.

There were four key stages to the transaction. The first involved building relationships, managing expectations and identifying the concerns and aspirations of those involved. The trust aimed for transparency and organised an away day for staff to help them understand the process.

The second stage was one of partial integration. This took around six months and involved a thorough review of the policies and procedures of both organisations, analysing their services, and working out how to integrate them. Groups were set up to decide how to bring the best of both organisations together and fill any possible gaps.



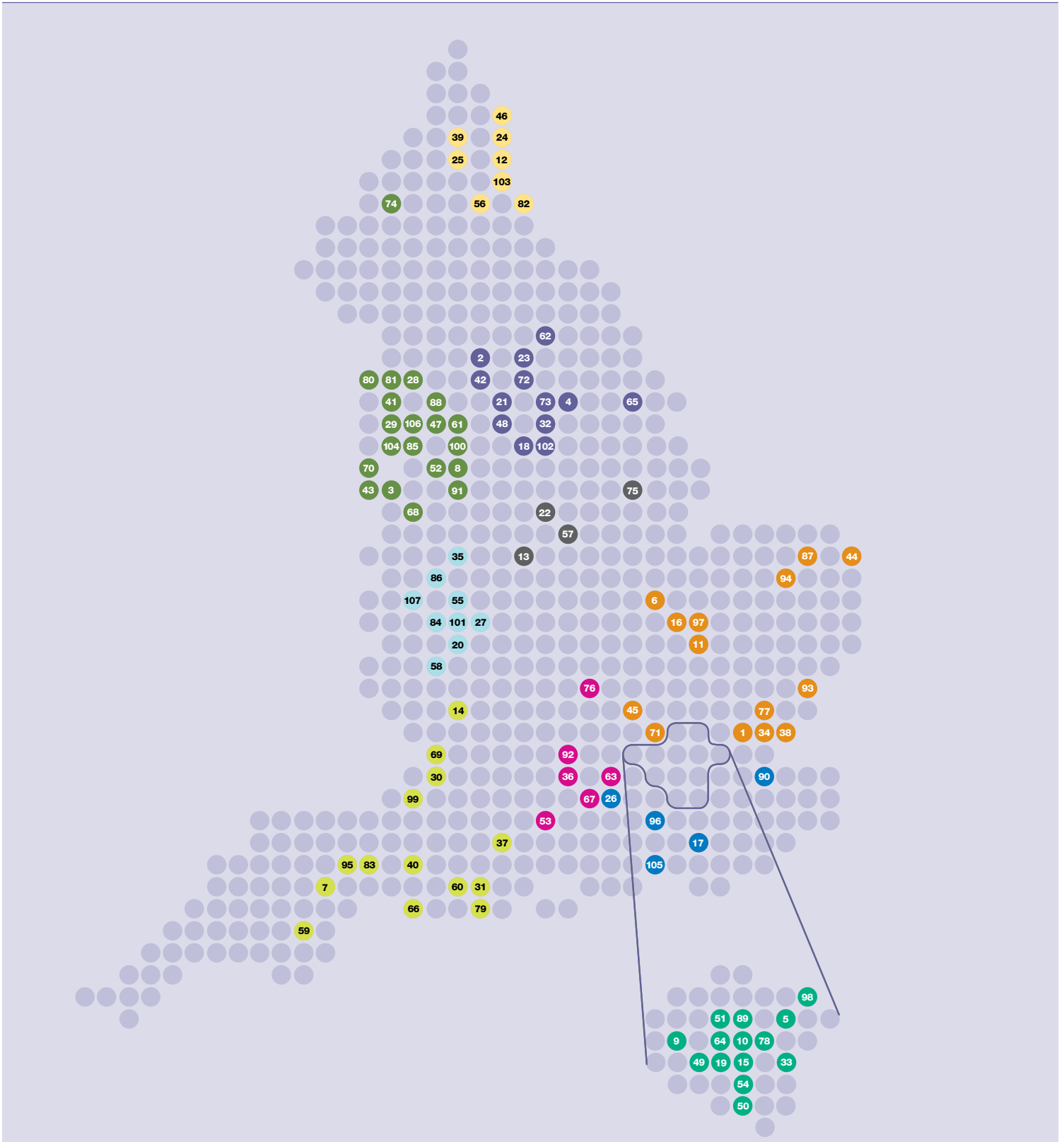
The third stage was full integration with financial, legal and human resources. The trust treated the new parts of the organisation as if they were going through a foundation trust application process.

Steve Grange, Director of Business Development, said: “The first three stages of the process took longer than anticipated but it meant there were fewer surprises when we completed the transaction. We had already involved all our partners, including the PCTs, governors and members. Getting everyone round the table in the early stages made everything easier. If we hadn’t done this I think we would have had more of a struggle in the fourth stage post completion of the deal”.

The trust feels that combining these two entities has led to clinical improvements, particularly through the sharing of policies and procedures. Steve says: “If we had to do it again we’d use exactly the same approach. It’s about partnership rather than being confrontational. It certainly pays off strategically over the long term”.

# Chart 1

Map of NHS foundation trusts by authorisation date  
(as at 1 October 2008)

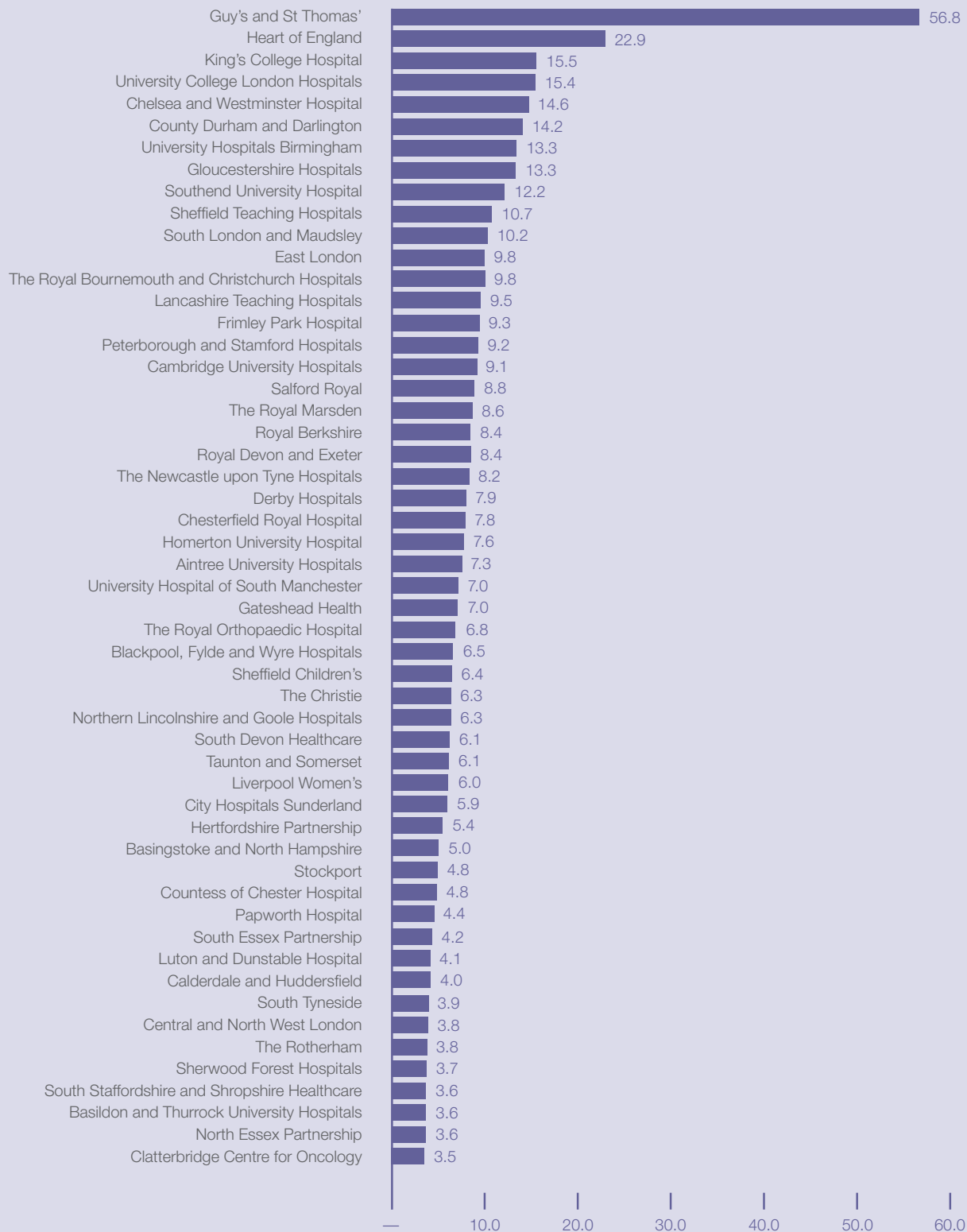


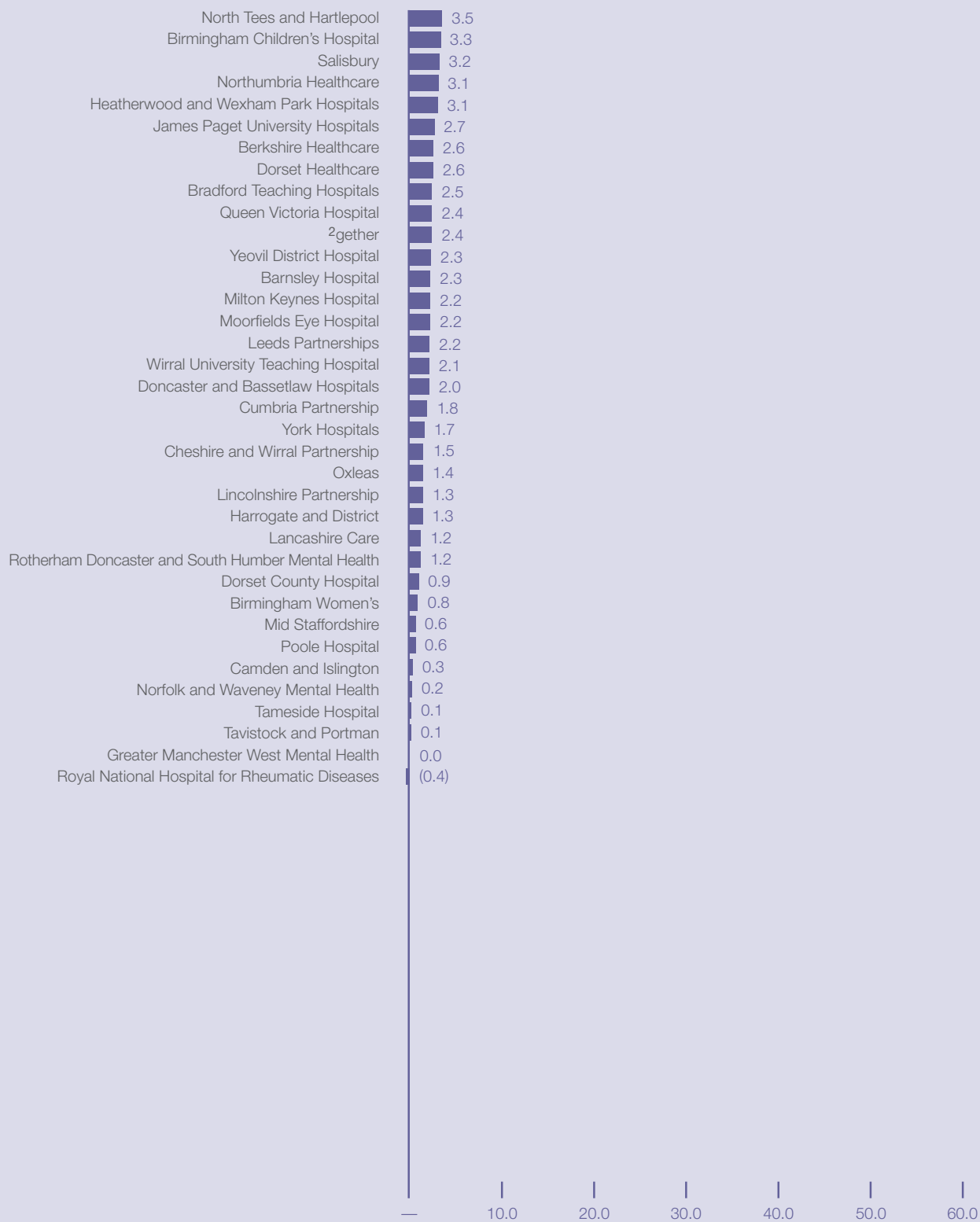
1	Basildon and Thurrock University Hospitals	1 Apr 2004	55	Birmingham Children's Hospital	1 Feb 2007
2	Bradford Teaching Hospitals	1 Apr 2004	56	County Durham and Darlington	1 Feb 2007
3	Countess of Chester Hospital	1 Apr 2004	57	Sherwood Forest Hospitals	1 Feb 2007
4	Doncaster and Bassetlaw Hospitals	1 Apr 2004	58	The Royal Orthopaedic Hospital	1 Feb 2007
5	Homerton University Hospital	1 Apr 2004	59	South Devon Healthcare	1 Mar 2007
6	Peterborough and Stamford Hospitals	1 Apr 2004	60	Dorset Healthcare	1 Apr 2007
7	Royal Devon and Exeter	1 Apr 2004	61	The Christie	1 Apr 2007
8	Stockport	1 Apr 2004	62	York Hospitals	1 Apr 2007
9	The Royal Marsden	1 Apr 2004	63	Berkshire Healthcare	1 May 2007
10	Moorfields Eye Hospital	1 Apr 2004	64	Central and North West London	1 May 2007
11	Cambridge University Hospitals	1 Jul 2004	65	Northern Lincolnshire and Goole Hospitals	1 May 2007
12	City Hospitals Sunderland	1 Jul 2004	66	Dorset County Hospital	1 Jun 2007
13	Derby Hospitals	1 Jul 2004	67	Heatherwood and Wexham Park Hospitals	1 Jun 2007
14	Gloucestershire Hospitals	1 Jul 2004	68	Cheshire and Wirral Partnership	1 Jul 2007
15	Guy's and St Thomas'	1 Jul 2004	69	<sup>2</sup> gether	1 Jul 2007
16	Papworth Hospital	1 Jul 2004	70	Wirral University Teaching Hospital	1 Jul 2007
17	Queen Victoria Hospital	1 Jul 2004	71	Hertfordshire Partnership	1 Aug 2007
18	Sheffield Teaching Hospitals	1 Jul 2004	72	Leeds Partnerships	1 Aug 2007
19	University College London Hospitals	1 Jul 2004	73	Rotherham Doncaster and South Humber Mental Health	1 Aug 2007
20	University Hospitals Birmingham	1 Jul 2004	74	Cumbria Partnership	1 Oct 2007
21	Barnsley Hospital	1 Jan 2005	75	Lincolnshire Partnership	1 Oct 2007
22	Chesterfield Royal Hospital	1 Jan 2005	76	Milton Keynes Hospital	1 Oct 2007
23	Harrogate and District	1 Jan 2005	77	North Essex Partnership	1 Oct 2007
24	South Tyneside	1 Jan 2005	78	East London	1 Nov 2007
25	Gateshead Health	5 Jan 2005	79	Poole Hospital	1 Nov 2007
26	Frimley Park Hospital	1 Apr 2005	80	Blackpool Fylde and Wyre Hospitals	1 Dec 2007
27	Heart of England	1 Apr 2005	81	Lancashire Care	1 Dec 2007
28	Lancashire Teaching Hospitals	1 Apr 2005	82	North Tees and Hartlepool	1 Dec 2007
29	Liverpool Women's	1 Apr 2005	83	Taunton and Somerset	1 Dec 2007
30	Royal National Hospital for Rheumatic Diseases	1 Apr 2005	84	Birmingham Women's	1 Feb 2008
31	The Royal Bournemouth and Christchurch Hospitals	1 Apr 2005	85	Greater Manchester West Mental Health	1 Feb 2008
32	The Rotherham	1 Jun 2005	86	Mid Staffordshire	1 Feb 2008
33	Oxleas	1 May 2006	87	Norfolk and Waveney Mental Health	1 Feb 2008
34	South Essex Partnership	1 May 2006	88	Tameside Hospital	1 Feb 2008
35	South Staffordshire and Shropshire Healthcare	1 May 2006	89	Camden and Islington	1 Mar 2008
36	Royal Berkshire	1 Jun 2006	90	Medway	1 Apr 2008
37	Salisbury	1 Jun 2006	91	Mid Cheshire Hospitals	1 Apr 2008
38	Southend University Hospital	1 Jun 2006	92	Oxfordshire and Buckinghamshire Mental Health	1 Apr 2008
39	The Newcastle upon Tyne Hospitals	1 Jun 2006	93	Colchester Hospital University	1 May 2008
40	Yeovil District Hospital	1 Jun 2006	94	Norfolk and Norwich University Hospitals	1 May 2008
41	Aintree University Hospitals	1 Aug 2006	95	Somerset Partnership	1 May 2008
42	Calderdale and Huddersfield	1 Aug 2006	96	Surrey and Borders Partnership	1 May 2008
43	Clatterbridge Centre for Oncology	1 Aug 2006	97	Cambridgeshire and Peterborough	1 Jun 2008
44	James Paget University Hospitals	1 Aug 2006	98	North East London	1 Jun 2008
45	Luton and Dunstable Hospital	1 Aug 2006	99	University Hospitals Bristol	1 Jun 2008
46	Northumbria Healthcare	1 Aug 2006	100	Pennine Care	1 Jul 2008
47	Salford Royal	1 Aug 2006	101	Birmingham and Solihull Mental Health	1 Jul 2008
48	Sheffield Children's	1 Aug 2006	102	Sheffield Health and Social Care	1 Jul 2008
49	Chelsea and Westminster Hospital	1 Oct 2006	103	Tees, Esk and Wear Valleys	1 Jul 2008
50	South London and Maudsley	1 Nov 2006	104	Alder Hey Children's	1 Aug 2008
51	Tavistock and Portman	1 Nov 2006	105	Sussex Partnership	1 Aug 2008
52	University Hospital of South Manchester	1 Nov 2006	106	Royal Bolton Hospital	1 Oct 2008
53	Basingstoke and North Hampshire	1 Dec 2006	107	The Dudley Group of Hospitals	1 Oct 2008
54	King's College Hospital	1 Dec 2006			

## Chart 2

### Surpluses and deficits by NHS foundation trust (£ million) at 31 March 2008

The surpluses and deficits below are shown after payments of PDC dividends but before impairments, profits or losses on disposals of fixed assets and exceptional items.

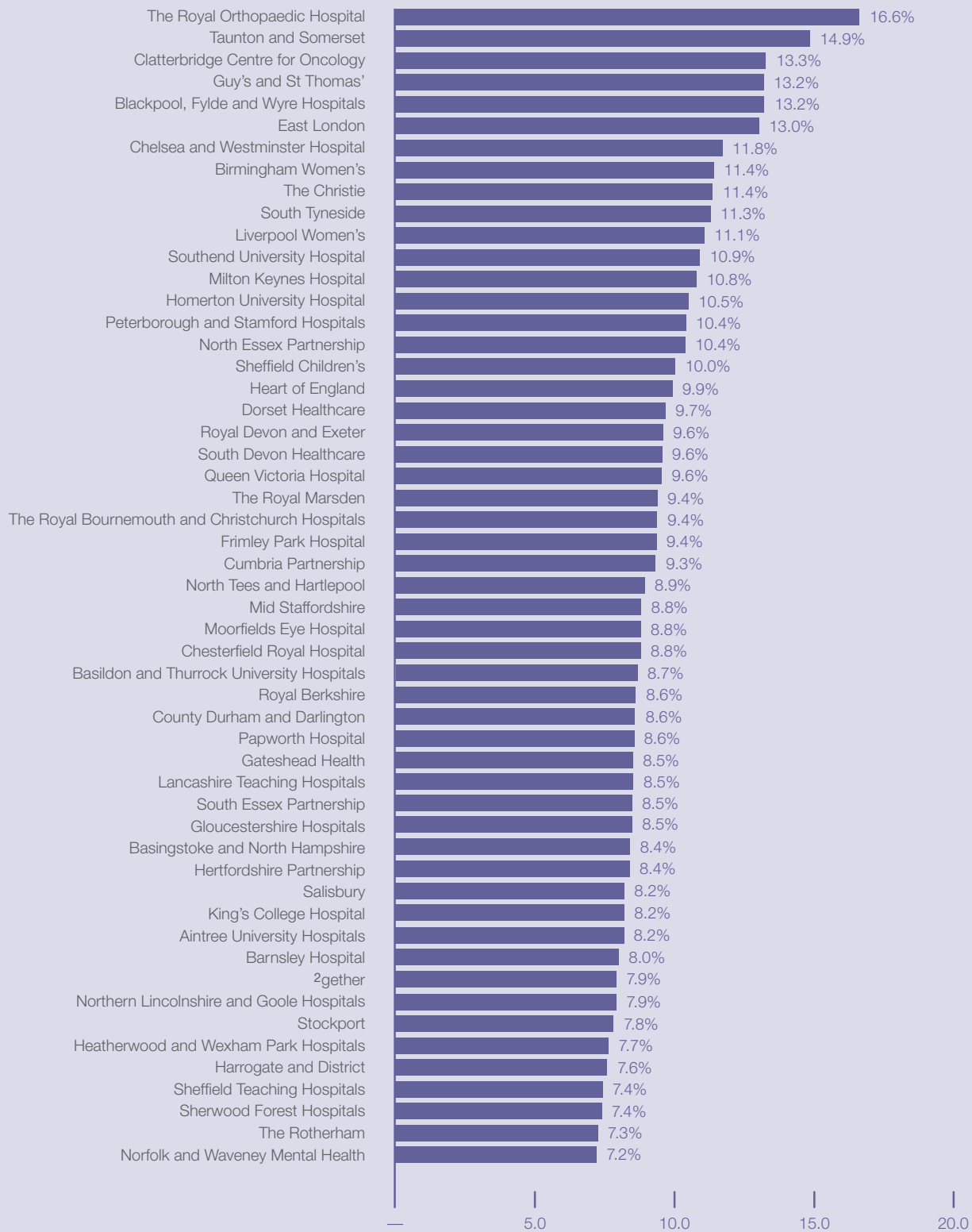


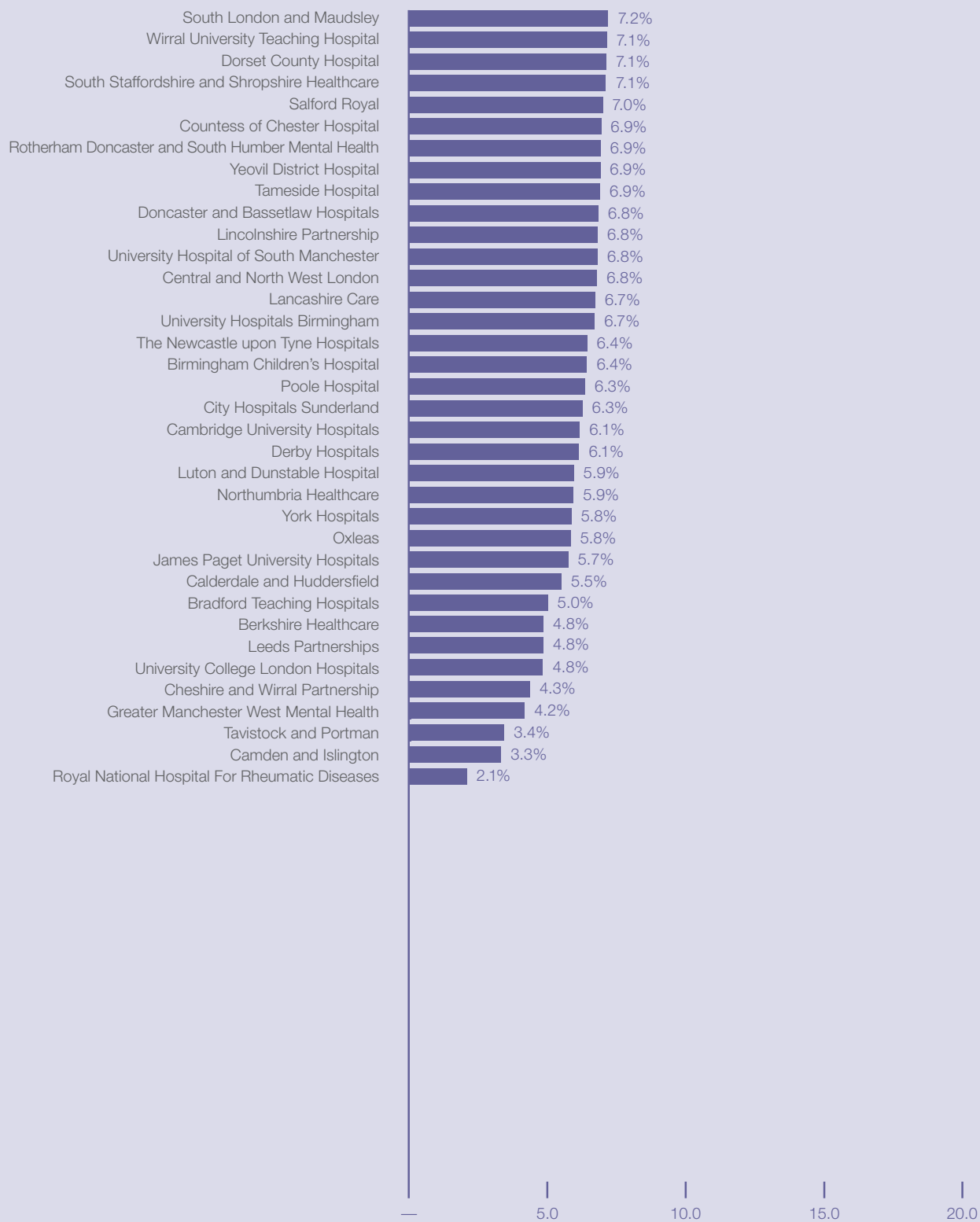




# Chart 3

## EBITDA margin by NHS foundation trust as at 31 March 2008





## Chart 4

### Borrowing at NHS foundation trusts as at 31 March 2008

NHS foundation trust	Total long-term borrowing limit set by Monitor (£ million)	2006-07 closing long-term loans (£ million)	2007-08 closing long-term loans (£ million)	Working capital facility set by Monitor (£ million)	2006-07 working capital facility outstanding (£ million)	2007-08 working capital facility outstanding (£ million)	Total Prudential Borrowing Limit set by Monitor (£ million)
Aintree University Hospitals	46.3	0.0	0.0	15.0	0.0	0.0	61.3
Barnsley Hospital	13.2	0.0	0.0	8.0	0.0	0.0	21.2
Basildon and Thurrock University Hospitals	49.9	3.3	9.9	16.0	0.0	0.0	65.9
Basingstoke and North Hampshire	27.8	0.0	0.0	10.0	0.0	0.0	37.8
Berkshire Healthcare	9.3	–	0.0	7.0	–	0.0	16.3
Birmingham Children's Hospital	16.7	0.0	0.0	11.4	0.0	0.0	28.1
Birmingham Women's	16.2	–	0.0	5.5	–	0.0	21.7
Blackpool, Fylde and Wyre Hospitals	39.1	–	0.0	16.0	–	0.0	55.1
Bradford Teaching Hospitals	33.6	0.0	0.0	18.5	0.0	0.0	52.1
Calderdale and Huddersfield	15.1	0.0	2.1	18.0	0.0	0.0	33.1
Cambridge University Hospitals	101.0	13.8	21.3	28.4	0.0	0.0	129.4
Camden and Islington	19.1	–	0.0	11.0	–	0.0	30.1
Chelsea and Westminster Hospital	29.9	14.0	15.6	18.0	0.0	0.0	47.9
Chesterfield Royal Hospital	32.4	0.0	0.0	11.0	0.0	0.0	43.4
The Christie	31.9	–	0.0	10.0	–	0.0	41.9
City Hospitals Sunderland	30.9	7.0	6.6	18.0	0.0	0.0	48.9
Countess of Chester Hospital	31.3	0.0	0.0	10.0	0.0	0.0	41.3
Clatterbridge Centre for Oncology	11.3	0.0	0.0	4.0	0.0	0.0	15.3
Central and North West London	41.9	–	0.0	15.2	–	0.0	57.1
Cumbria Partnership	13.6	–	0.0	4.5	–	0.0	18.1
Cheshire and Wirral Partnership	7.1	–	0.0	10.0	–	0.0	17.1
County Durham and Darlington	36.0	0.0	0.0	22.0	0.0	0.0	58.0
Derby Hospitals	36.3	5.4	15.9	24.0	0.0	0.0	60.3
Doncaster and Bassetlaw Hospitals	34.4	3.4	3.2	15.0	0.0	0.0	49.4
Dorset County Hospital	18.8	–	0.0	10.0	–	0.0	28.8
Dorset Healthcare	16.9	–	2.5	6.0	–	0.0	22.9
East London	36.5	–	0.0	13.4	–	0.0	49.9
Frimley Park Hospital	39.2	0.0	0.0	12.5	0.0	0.0	51.7
Gateshead Health	23.2	0.0	0.0	12.0	0.0	0.0	35.2
Gloucestershire Hospitals	44.5	10.4	17.9	28.8	0.0	0.0	73.3
Greater Manchester West Mental Health	21.4	–	0.0	10.0	–	0.0	31.4
Guy's and St Thomas'	160.6	0.0	0.0	30.0	0.0	0.0	190.6
Harrogate and District	20.1	0.0	0.0	7.5	0.0	0.0	27.6
Heart of England	97.8	0.0	0.0	30.0	0.0	0.0	127.8
Hertfordshire Partnership	30.8	–	0.0	13.0	–	0.0	43.8
Homerton University Hospital	35.3	2.2	5.1	11.0	0.0	0.0	46.3
Heatherwood and Wexham Park Hospitals	41.9	–	0.0	16.0	–	0.0	57.9
James Paget University Hospitals	28.6	0.0	0.0	10.0	0.0	0.0	38.6
King's College Hospital	48.4	14.3	13.7	25.0	0.0	0.0	73.4
Lancashire Care	26.5	–	0.0	12.0	–	0.0	38.5
Lancashire Teaching Hospitals	67.1	0.0	0.0	21.0	0.0	0.0	88.1
Leeds Partnerships	10.0	–	0.0	8.5	–	0.0	18.5
Lincolnshire Partnership	19.4	–	0.0	7.0	–	0.0	26.4
Liverpool Women's	17.2	0.0	0.0	5.0	0.0	0.0	22.2
Luton and Dunstable Hospital	33.3	0.0	0.0	12.0	0.0	0.0	45.3
Mid Staffordshire	23.9	–	0.0	11.0	–	0.0	34.9
Milton Keynes Hospital	27.8	–	0.0	10.0	–	0.0	37.8

NHS foundation trust	Total long-term borrowing limit set by Monitor (£ million)	2006-07 closing long-term loans (£ million)	2007-08 closing long-term loans (£ million)	Working capital facility set by Monitor (£ million)	2006-07 working capital facility outstanding (£ million)	2007-08 working capital facility outstanding (£ million)	Total Prudential Borrowing Limit set by Monitor (£ million)
Moorfields Eye Hospital	13.8	13.2	12.4	6.0	0.0	0.0	19.8
The Newcastle upon Tyne Hospitals	133.1	0.0	0.0	50.0	0.0	0.0	183.1
Northern Lincolnshire and Goole Hospitals	54.0	–	0.0	18.0	–	0.0	72.0
North Essex Partnership	17.5	–	0.0	7.5	–	0.0	25.0
North Tees and Hartlepool	37.6	–	0.0	16.0	–	0.0	53.6
Northumbria Healthcare	45.5	0.0	0.0	21.0	0.0	0.0	66.5
Norfolk and Waveney Mental Health	24.8	–	0.0	8.4	–	0.0	33.2
Oxleas	28.6	8.0	8.0	10.0	0.0	0.0	38.6
Papworth Hospital	18.0	0.0	4.1	6.0	0.0	0.0	24.0
Peterborough and Stamford Hospitals	29.5	0.0	0.0	12.0	0.0	0.0	41.5
Poole Hospital	23.3	–	0.0	13.0	–	0.0	36.3
Queen Victoria Hospital	10.4	0.0	0.0	3.0	0.0	0.0	13.4
Rotherham Doncaster and South Humber Mental Health	14.7	–	0.0	7.0	–	0.0	21.7
Royal Devon and Exeter	67.4	26.6	25.3	18.0	0.0	0.0	85.4
Royal National Hospital for Rheumatic Diseases	1.8	0.0	0.0	1.0	0.0	0.0	2.8
The Royal Orthopaedic Hospital	12.1	0.0	0.0	4.0	0.0	0.0	16.1
The Rotherham	29.2	0.0	0.0	10.8	0.0	0.7	40.0
Royal Berkshire	52.1	0.0	0.0	15.0	0.0	0.0	67.1
The Royal Bournemouth and Christchurch Hospitals	41.4	0.0	0.0	9.0	0.0	0.0	50.4
The Royal Marsden	39.6	0.0	0.0	14.7	0.0	0.0	54.3
Salford Royal	49.0	0.0	0.0	17.0	0.0	0.0	66.0
Salisbury	19.5	0.0	0.0	13.0	0.0	0.0	32.5
Sheffield Children's	16.7	0.0	0.0	6.5	0.0	0.0	23.2
Sheffield Teaching Hospitals	150.7	0.0	7.3	46.0	0.0	0.0	196.7
Sherwood Forest Hospitals	40.0	0.0	0.0	15.0	0.0	0.0	55.0
South London and Maudsley	71.4	0.0	0.0	25.0	0.0	0.0	96.4
South Devon Healthcare	38.1	0.4	0.4	15.0	0.3	0.0	53.1
Southend University Hospital	45.5	0.0	0.0	15.0	0.0	0.0	60.5
South Essex Partnership	14.0	0.0	0.0	8.0	0.0	0.0	22.0
South Staffordshire and Shropshire Healthcare	25.6	0.0	0.0	12.0	0.0	0.0	37.6
South Tyneside	20.0	0.0	0.0	7.0	0.0	0.0	27.0
Stockport	46.1	21.0	20.1	14.0	0.0	0.0	60.1
Tameside Hospital	24.7	–	0.0	10.0	–	0.0	34.7
Taunton and Somerset	30.4	–	0.0	12.7	–	0.0	43.1
Tavistock and Portman	2.8	0.0	0.0	1.8	0.0	0.0	4.6
University College London Hospitals	96.7	0.0	0.0	30.0	0.0	8.0	126.7
University Hospitals Birmingham	77.1	0.0	0.0	32.0	0.0	0.0	109.1
University Hospital of South Manchester	43.5	0.0	0.0	22.0	0.0	0.0	65.5
Wirral University Teaching Hospital	34.7	–	0.0	18.0	–	0.0	52.7
Yeovil District Hospital	17.7	0.0	0.0	6.5	0.0	0.0	24.2
York Hospitals	14.6	–	0.0	14.5	–	0.0	29.1
2gether	16.3	–	0.0	6.1	–	0.0	22.4
	3,203.0	143.0	191.4	1,245.7	0.3	8.7	4,448.7

## Chart 5

### Membership numbers for the 89 NHS foundation trusts, authorised as at 31 March 2008

NHS foundation trust	Total Membership as at 31/3/07	Total Membership as at 31/3/08	Of which: Public*	Staff	Patient*
Aintree University Hospitals	9,989	10,080	4,474	4,020	1,586
Barnsley Hospital	12,781	12,784	9,669	3,115	0
Basildon and Thurrock University Hospitals	13,016	13,951	9,256	4,695	0
Basingstoke and North Hampshire	4,318	4,835	3,510	1,300	25
Berkshire Healthcare	–	5,226	2,987	1,660	579
Birmingham Children's Hospital	5,029	6,282	1,446	2,804	2,032
Birmingham Women's	–	3,700	1,725	1,464	511
Blackpool, Fylde and Wyre Hospitals	–	9,034	4,499	4,535	0
Bradford Teaching Hospitals	9,639	44,098	29,899	4,610	9,589
Calderdale and Huddersfield	7,933	9,104	7,907	1,197	0
Cambridge University Hospitals	22,845	22,847	8,276	7,077	7,494
Camden and Islington	–	4,541	2,625	1,686	230
Central and North West London	–	5,232	568	3,468	1,196
Chelsea and Westminster Hospital	13,287	13,140	6,580	465	6,095
Cheshire and Wirral Partnership	–	7,292	4,023	2,512	757
Chesterfield Royal Hospital	13,176	14,977	11,770	3,207	0
City Hospitals Sunderland	9,096	8,878	3,404	4,383	1,091
The Christie	–	10,739	8,352	2,387	0
Clatterbridge Centre for Oncology	4,203	5,494	4,735	759	0
Countess of Chester Hospital	7,638	8,319	5,153	3,166	0
Cumbria Partnership	–	6,506	4,321	1,405	780
County Durham and Darlington	8,246	8,506	3,360	5,146	0
Derby Hospitals	15,330	15,823	8,964	6,859	0
Doncaster and Bassetlaw Hospitals	8,471	8,513	3,207	4,912	394
Dorset County Hospital	–	6,464	3,132	3,332	0
Dorset Healthcare	–	4,220	2,211	2,009	0
East London	–	9,666	7,098	2,568	0
Frimley Park Hospital	9,291	10,248	8,021	2,227	0
Gateshead Health	12,307	13,223	9,797	3,426	0
Gloucestershire Hospitals	13,965	13,197	11,418	917	862
Greater Manchester West Mental Health	–	6,656	2,200	2,822	1,634
Guy's and St Thomas'	14,828	15,068	3,669	8,112	3,287
Harrogate and District	13,662	13,374	12,191	1,183	0
Heart of England	77,291	91,174	76,420	9,128	5,626
Hertfordshire Partnership	–	7,867	5,236	2,631	0
Homerton University Hospital	5,701	5,663	4,214	1,449	0
Heatherwood and Wexham Park Hospitals	–	14,426	10,753	3,673	0
James Paget University Hospitals	13,126	13,164	9,824	3,340	0
King's College Hospital	13,749	13,021	3,439	5,832	3,750
Lancashire Care	–	8,021	4,252	3,769	0
Lancashire Teaching Hospitals	20,241	22,490	7,902	5,897	8,691
Leeds Partnerships	–	12,767	9,088	2,878	801
Lincolnshire Partnership	–	7,375	3,975	1,933	1,467
Liverpool Women's	9,725	9,807	8,442	1,365	0
Luton and Dunstable Hospital	8,775	12,319	8,726	3,593	0

\* NHS foundation trusts are not required to report separately on their public and patient membership numbers.

NHS foundation trust	Total Membership as at 31/3/07	Total Membership as at 31/3/08	Of which: Public*	Staff	Patient*
Mid Staffordshire	–	6,520	3,243	3,277	0
Milton Keynes Hospital	–	8,944	5,945	2,999	0
Moorfields Eye Hospital	11,007	11,072	8,308	1,365	1,399
The Newcastle upon Tyne Hospitals	8,347	9,410	6,399	3,011	0
Northern Lincolnshire and Goole Hospitals	–	11,046	4,904	6,142	0
North Essex Partnership	–	6,156	4,327	1,829	0
North Tees and Hartlepool	–	9,273	4,716	4,557	0
Northumbria Healthcare	15,487	48,652	42,591	6,061	0
Norfolk and Waveney Mental Health	–	5,661	2,283	2,630	748
Oxleas	3,951	4,169	1,331	2,059	779
Papworth Hospital	11,475	11,082	10,115	967	0
Peterborough and Stamford Hospitals	8,671	8,440	5,326	3,114	0
Poole Hospital	–	9,810	5,063	4,747	0
Queen Victoria Hospital	12,511	11,272	10,461	811	0
Rotherham Doncaster and South Humber Mental Health	–	8,092	4,670	2,580	842
Royal Devon and Exeter	19,519	19,965	13,900	6,065	0
Royal National Hospital for Rheumatic Diseases	5,232	5,156	941	408	3,807
The Royal Orthopaedic Hospital	3,018	4,783	3,757	1,026	0
The Rotherham	8,173	10,143	6,705	3,438	0
The Royal Bournemouth and Christchurch Hospitals	14,238	14,058	13,086	972	0
Royal Berkshire	10,491	12,631	7,926	4,705	0
The Royal Marsden	4,732	5,024	1,348	2,355	1,321
Salford Royal	8,158	10,175	5,904	4,271	0
Salisbury	10,949	13,002	10,853	1,488	661
Sheffield Children's	6,523	7,317	3,181	1,905	2,231
Sheffield Teaching Hospitals	18,727	19,151	3,197	12,500	3,454
Sherwood Forest Hospitals	14,227	18,179	13,486	4,693	0
South London and Maudsley	3,082	4,079	1,071	2,307	701
South Devon Healthcare	22,236	21,097	17,347	3,750	0
Southend University Hospital	13,809	13,953	3,466	4,184	6,303
South Essex Partnership	9,058	10,259	8,359	1,900	0
South Staffordshire and Shropshire Healthcare	6,226	13,170	9,806	3,364	0
South Tyneside	5,291	5,723	3,585	2,138	0
Stockport	14,216	15,860	11,856	4,004	0
Tameside Hospital	–	8,103	5,738	2,365	0
Taunton and Somerset	–	5,590	4,240	1,350	0
Tavistock and Portman	3,279	3,936	3,465	471	0
University College London Hospitals	12,334	12,889	957	6,391	5,541
University Hospitals Birmingham	86,862	80,725	51,545	6,990	22,190
University Hospital of South Manchester	9,473	9,738	3,326	5,613	799
Wirral University Teaching Hospital	–	10,927	5,653	5,274	0
Yeovil District Hospital	7,246	7,459	6,788	671	0
York Hospitals	–	18,201	11,084	4,240	2,877
2gether	–	3,758	2,162	1,596	0
	766,206	1,124,761	717,132	295,499	112,130

## Chart 6

### Healthcare Commission assessment of quality of services for each of the 89 NHS foundation trusts authorised as at 31 March 2008

NHS foundation trust	2006-07	2007-08
Aintree University Hospitals	Good	Fair
Barnsley Hospital	Good	Excellent
Basildon and Thurrock University Hospitals	Fair	Excellent
Basingstoke and North Hampshire	Excellent	Excellent
Berkshire Healthcare	Excellent	Excellent
Birmingham Children's Hospital	Excellent	Fair
Birmingham Women's	Excellent	Good
Blackpool, Fylde and Wyre Hospitals	Fair	Fair
Bradford Teaching Hospitals	Good	Good
Calderdale and Huddersfield	Excellent	Excellent
Cambridge University Hospitals	Excellent	Excellent
Camden and Islington	Excellent	Good
Central and North West London	Excellent	Excellent
Chelsea and Westminster Hospital	Excellent	Good
Cheshire and Wirral Partnership	Excellent	Excellent
Chesterfield Royal Hospital	Excellent	Excellent
The Christie	Good	Excellent
City Hospitals Sunderland	Good	Excellent
Countess of Chester Hospital	Fair	Good
Clatterbridge Centre for Oncology	Good	Excellent
County Durham and Darlington	Fair	Excellent
Cumbria Partnership	Excellent	Good
Derby Hospitals	Fair	Good
Doncaster and Bassetlaw Hospitals	Good	Good
Dorset County Hospital	Good	Excellent
Dorset Healthcare	Excellent	Excellent
East London	Excellent	Excellent
Frimley Park Hospital	Excellent	Excellent
Gateshead Health	Good	Good
Gloucestershire Hospitals	Fair	Good
Greater Manchester West Mental Health	Good	Good
Guy's and St Thomas'	Excellent	Good
Harrogate and District	Good	Excellent
Heart of England	Excellent	Good
Hertfordshire Partnership	Excellent	Excellent
Homerton University Hospital	Good	Excellent
Heatherwood and Wexham Park Hospitals	Excellent	Good
James Paget University Hospitals	Fair	Excellent
King's College Hospital	Excellent	Fair
Lancashire Care	Fair	Excellent
Lancashire Teaching Hospitals	Fair	Good
Leeds Partnerships	Excellent	Good
Lincolnshire Partnership	Excellent	Excellent
Liverpool Women's	Excellent	Good
Luton and Dunstable Hospital	Fair	Fair

NHS foundation trust	2006-07	2007-08
Mid Staffordshire	Fair	Good
Milton Keynes Hospital	Good	Good
Moorfields Eye Hospital	Weak	Fair
The Newcastle upon Tyne Hospitals	Good	Excellent
Northern Lincolnshire and Goole Hospitals	Fair	Good
North Essex Partnership	Excellent	Fair
North Tees and Hartlepool	Fair	Good
Northumbria Healthcare	Fair	Good
Norfolk and Waveney Mental Health	Good	Good
Oxleas	Good	Excellent
Papworth Hospital	Excellent	Good
Peterborough and Stamford Hospitals	Fair	Weak
Poole Hospital	Good	Excellent
Queen Victoria Hospital	Excellent	Excellent
Rotherham Doncaster and South Humber Mental Health	Excellent	Excellent
Royal Devon and Exeter	Good	Excellent
Royal National Hospital for Rheumatic Diseases	Excellent	Fair
The Royal Orthopaedic Hospital	Good	Good
The Rotherham	Good	Excellent
Royal Berkshire	Fair	Good
The Royal Bournemouth and Christchurch Hospitals	Good	Good
The Royal Marsden	Excellent	Excellent
Salford Royal	Excellent	Excellent
Salisbury	Fair	Good
Sheffield Children's	Excellent	Excellent
Sheffield Teaching Hospital	Excellent	Excellent
Sherwood Forest Hospitals	Good	Good
South London and Maudsley	Good	Excellent
South Devon Healthcare	Fair	Good
Southend University Hospital	Good	Excellent
South Essex Partnership	Excellent	Excellent
South Staffordshire and Shropshire Healthcare	Excellent	Excellent
South Tyneside	Good	Excellent
Stockport	Good	Excellent
Tameside Hospital	Fair	Good
Taunton and Somerset	Fair	Good
Tavistock and Portman	Excellent	Excellent
University College London Hospitals	Good	Good
University Hospitals of Birmingham	Good	Good
University Hospital of South Manchester	Fair	Excellent
Wirral University Teaching Hospital	Fair	Good
Yeovil District Hospital	Excellent	Excellent
York Hospitals	Excellent	Excellent
2gether	Excellent	Good



## Chart 7

### Healthcare Commission assessment of use of resources for each of the 89 NHS foundation trusts authorised as at 31 March 2008

NHS foundation trust	2006-07	2007-08
Aintree University Hospitals	Good	Excellent
Barnsley Hospital	Good	Good
Basildon and Thurrock University Hospitals	Fair	Excellent
Basingstoke and North Hampshire	Excellent	Excellent
Berkshire Healthcare	Excellent	Excellent
Birmingham Children's Hospital	Excellent	Excellent
Birmingham Women's	Excellent	Excellent
Blackpool, Fylde and Wyre Hospitals	Fair	Excellent
Bradford Teaching Hospitals	Good	Good
Calderdale and Huddersfield	Excellent	Excellent
Cambridge University Hospitals	Excellent	Excellent
Camden and Islington	Good	Excellent
Chelsea and Westminster Hospital	Excellent	Excellent
Chesterfield Royal Hospital	Excellent	Excellent
Countess of Chester Hospital	Fair	Excellent
The Christie	Good	Excellent
Clatterbridge Centre for Oncology	Good	Excellent
Central and North West London	Excellent	Excellent
Cumbria Partnership	Excellent	Excellent
Cheshire and Wirral Partnership	Excellent	Good
City Hospitals Sunderland	Good	Excellent
County Durham and Darlington	Fair	Excellent
Derby Hospitals	Fair	Excellent
Doncaster and Bassetlaw Hospitals	Good	Excellent
Dorset County Hospital	Good	Good
Dorset Healthcare	Excellent	Excellent
East London	Excellent	Excellent
Frimley Park Hospital	Excellent	Excellent
Gateshead Health	Good	Excellent
Gloucestershire Hospitals	Fair	Excellent
Greater Manchester West Mental Health	Good	Excellent
Guy's and St Thomas'	Excellent	Excellent
Harrogate and District	Good	Excellent
Heart of England	Excellent	Excellent
Hertfordshire Partnership	Excellent	Good
Homerton University Hospital	Good	Excellent
Heatherwood and Wexham Park Hospitals	Excellent	Excellent
James Paget University Hospitals	Fair	Excellent
King's College Hospital	Excellent	Excellent
Lancashire Care	Fair	Excellent
Lancashire Teaching Hospitals	Fair	Excellent
Leeds Partnerships	Excellent	Excellent
Lincolnshire Partnership	Excellent	Excellent
Liverpool Women's	Excellent	Excellent
Luton and Dunstable Hospital	Fair	Excellent

NHS foundation trust	2006-07	2007-08
Mid Staffordshire	Fair	Good
Milton Keynes Hospital	Good	Excellent
Moorfields Eye Hospital	Weak	Excellent
The Newcastle upon Tyne Hospitals	Good	Excellent
Northern Lincolnshire and Goole Hospitals	Fair	Excellent
North Essex Partnership	Excellent	Excellent
North Tees and Hartlepool	Fair	Excellent
Northumbria Healthcare	Fair	Excellent
Norfolk and Waveney Mental Health	Good	Excellent
Oxleas	Good	Excellent
Papworth Hospital	Excellent	Excellent
Peterborough and Stamford Hospitals	Fair	Excellent
Poole Hospital	Good	Good
Queen Victoria Hospital	Excellent	Excellent
The Rotherham	Good	Excellent
Rotherham Doncaster and South Humber Mental Health	Excellent	Excellent
Royal Berkshire	Fair	Excellent
The Royal Bournemouth and Christchurch Hospitals	Good	Excellent
Royal Devon and Exeter	Good	Excellent
The Royal Marsden	Excellent	Excellent
Royal National Hospital for Rheumatic Diseases	Excellent	Fair
The Royal Orthopaedic Hospital	Good	Excellent
Salford Royal	Excellent	Excellent
Salisbury	Fair	Excellent
Sheffield Children's	Excellent	Excellent
Sheffield Teaching Hospitals	Excellent	Excellent
Sherwood Forest Hospitals	Good	Excellent
South London and Maudsley	Good	Excellent
South Devon Healthcare	Fair	Excellent
Southend University Hospital	Good	Excellent
South Essex Partnership	Excellent	Excellent
South Staffordshire and Shropshire Healthcare	Excellent	Excellent
South Tyneside	Good	Excellent
Stockport	Good	Excellent
Tameside Hospital	Fair	Excellent
Taunton and Somerset	Fair	Excellent
Tavistock and Portman	Excellent	Good
University College London Hospitals	Good	Excellent
University Hospitals Birmingham	Good	Excellent
University Hospital of South Manchester	Fair	Excellent
Wirral University Teaching	Good	Excellent
Yeovil District Hospital	Excellent	Excellent
York Hospitals Hospital	Excellent	Excellent
2gether	Excellent	Excellent

## Chart 8

### NHS foundation trust risk ratings as at quarter 4 2007-08

NHS foundation trust	Governance	Finance
2gether	Green	4
Aintree University Hospitals	Amber	5
Barnsley Hospital	Amber	3
Basildon and Thurrock University Hospitals	Green	4
Basingstoke and North Hampshire	Green	5
Berkshire Healthcare	Green	4
Birmingham Children's Hospital	Green	4
Birmingham Women's	Green	4
Blackpool, Fylde and Wyre Hospitals	Amber	4
Bradford Teaching Hospitals	Amber	3
Calderdale and Huddersfield	Red*	4
Cambridge University Hospitals	Green	4
Camden and Islington	Green	4
Central and North West London	Green	4
Chelsea and Westminster Hospital	Amber	5
Cheshire and Wirral Partnership	Green	3
Chesterfield Royal Hospital	Green	5
The Christie	Green	4
City Hospitals Sunderland	Amber	4
Clatterbridge Centre for Oncology	Green	5
Countess of Chester Hospital	Amber	5
County Durham and Darlington	Amber	5
Cumbria Partnership	Green	4
Derby Hospitals	Green	4
Doncaster and Bassetlaw Hospitals	Red*	4
Dorset County Hospital	Green	3
Dorset Healthcare	Green	4
East London	Green	4
Frimley Park Hospital	Amber	5
Gateshead Health	Amber	5
Gloucestershire Hospitals	Amber	5
Greater Manchester West Mental Health	Green	4
Guy's and St Thomas'	Green	5
Harrogate and District	Green	4
Heart of England	Amber	5
Heatherwood and Wexham Park Hospitals	Amber	4
Hertfordshire Partnership	Green	3
Homerton University Hospital	Green	5
James Paget University Hospitals	Amber	4
King's College Hospital	Green	4
Lancashire Care	Green	4
Lancashire Teaching Hospitals	Red*	4
Leeds Partnerships	Green	4
Lincolnshire Partnership	Green	4
Liverpool Women's	Green	5

NHS foundation trust	Governance	Finance
Luton and Dunstable Hospital	Amber	4
Mid Staffordshire	Amber	3
Milton Keynes Hospital	Green	4
Moorfields Eye Hospital	Red*	4
Norfolk and Waveney Mental Health	Green	4
North Essex Partnership	Green	4
North Tees and Hartlepool	Amber	4
Northern Lincolnshire and Goole Hospitals	Amber	4
Northumbria Healthcare	Amber	4
Oxleas	Green	4
Papworth Hospital	Green	5
Peterborough and Stamford Hospitals	Amber	5
Poole Hospital	Red*	3
Queen Victoria Hospital	Green	5
Rotherham Doncaster and South Humber Mental Health	Green	4
Royal Berkshire	Amber	4
Royal Devon and Exeter	Amber	4
Royal National Hospital for Rheumatic Diseases	Green	2 <sup>†</sup>
Salford Royal	Amber	4
Salisbury	Amber	4
Sheffield Children's	Green	5
Sheffield Teaching Hospitals	Green	4
Sherwood Forest Hospitals	Amber	4
South Devon Healthcare	Amber	5
South Essex Partnership	Green	5
South London and Maudsley	Green	4
South Staffordshire and Shropshire Healthcare	Green	4
South Tyneside	Green	5
Southend University Hospital	Amber	5
Stockport	Amber	4
Tameside Hospital	Amber	4
Taunton and Somerset	Amber	4
Tavistock and Portman	Green	3
The Newcastle upon Tyne Hospitals	Amber	4
The Rotherham	Green	4
The Royal Bournemouth and Christchurch Hospitals	Amber	5
The Royal Marsden	Green	4
The Royal Orthopaedic Hospital	Green	5
University College London Hospitals	Amber	4
University Hospitals Birmingham	Amber	4
University Hospital of South Manchester	Amber	4
Wirral University Teaching Hospital	Amber	4
Yeovil District Hospital	Green	4
York Hospitals	Amber	4

\* See page 51. † See page 56.

## Foreword to the consolidated accounts

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

Paragraph 25(6)(a) of Schedule 7 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 each NHS foundation trust's board of governors.

Paragraph 11(3) of Schedule 8 to the Act requires Monitor to prepare a report which provides an overall summary of the accounts of NHS foundation trusts, lay this before Parliament and send a copy to the Secretary of State for Health. There is no specification as to the format 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 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 Monitor's auditors are unaware. The accounting officer has taken reasonable steps to make himself aware of any relevant audit information and to establish that the 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 89 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2008. 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 2006 and consolidated for the year ended 31 March 2007 and the year ended 31 March 2008:**

Barnsley Hospital NHS Foundation Trust  
Basildon and Thurrock University Hospitals NHS Foundation Trust  
Bradford Teaching Hospitals NHS Foundation Trust  
Cambridge University Hospitals NHS Foundation Trust  
Chesterfield Royal Hospital NHS Foundation Trust  
City Hospitals Sunderland NHS Foundation Trust  
Countess of Chester Hospital 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  
Lancashire Teaching Hospitals NHS Foundation Trust  
Liverpool Women's NHS Foundation Trust  
Moorfields Eye Hospital NHS Foundation Trust  
Papworth Hospital NHS Foundation Trust  
Peterborough and Stamford Hospitals NHS Foundation Trust  
Queen Victoria Hospital NHS Foundation Trust  
Royal Devon and Exeter NHS Foundation Trust  
Royal National Hospital for Rheumatic Diseases NHS Foundation Trust  
Sheffield Teaching Hospitals NHS Foundation Trust  
South Tyneside NHS Foundation Trust  
Stockport NHS Foundation Trust  
The Rotherham NHS Foundation Trust  
The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust  
The Royal Marsden NHS Foundation Trust  
University College London Hospitals NHS Foundation Trust  
University Hospitals Birmingham NHS Foundation Trust

**Authorised on 1 May 2006 and consolidated for the 11 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

**Authorised on 1 June 2006 and consolidated for the 10 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

# Foreword to the consolidated accounts

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**Authorised on 1 August 2006 and consolidated for the 8 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

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**Authorised on 1 October 2006 and consolidated for the 6 month period ended 31 March 2007 and the year ended 31 March 2008:**

Chelsea and Westminster Hospital NHS Foundation Trust

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**Authorised on 1 November 2006 and consolidated for the 5 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

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**Authorised on 1 December 2006 and consolidated for the 4 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

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**Authorised on 1 February 2007 and consolidated for the 2 month period ended 31 March 2007 and the year ended 31 March 2008:**

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

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**Authorised on 1 March 2007 and consolidated for the 31 day period ended 31 March 2007 and the year ended 31 March 2008:**

South Devon Healthcare NHS Foundation Trust

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

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

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

Berkshire Healthcare NHS Foundation Trust  
Northern Lincolnshire and Goole Hospitals NHS Foundation Trust

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

Central and North West London 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:**

2gether NHS Foundation Trust (formerly Gloucestershire Partnership NHS Foundation Trust)  
Cheshire and Wirral Partnership NHS Foundation Trust  
Dorset County Hospital 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:**

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:**

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:**

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:**

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:**

Birmingham Women's NHS Foundation Trust  
Greater Manchester West Mental Health NHS 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 31 day period ended 31 March 2008:**

Camden and Islington NHS Foundation Trust



# Consolidated results for the year ended 31 March 2008

In aggregate, NHS foundation trusts made a surplus after taxation for the year ended 31 March 2008 of £747.2 million (2006-07 restated: £233.0 million). As part of their financial duties NHS foundation trusts are required to pay a dividend to the Department of Health in respect of the public capital they utilise. After the payment of this dividend NHS foundation trusts made a surplus of £395.3 million for the year ended 31 March 2008 (2006-07 restated: deficit of £2.9 million).

Pages 8 to 27 set out a review of the NHS foundation trusts' development during the year.

**Dr William Moyes**  
Executive Chairman  
20 October 2008

# 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).

## Statements on internal control

Monitor's system of internal control is designed to support the achievement of its 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, comprising senior representatives from Monitor, 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. The forum members discuss technical audit and accounting issues relating to NHS foundation trusts. The forum's terms of reference and minutes are published on Monitor's website;
- ensuring consistent financial reporting and audit;
- relying on the external auditors appointed by each NHS foundation trust's board of governors to ensure the accuracy and fairness of each set of accounts that have been consolidated into these accounts. These auditors have each undertaken an audit in accordance with the *Audit Code for NHS Foundation Trusts*, issued by Monitor;
- the appointment of the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consideration of their findings;
- obtaining an external quality review of the draft consolidated accounts;
- 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 Accounting Officer. 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 2008. These statements confirmed that all the NHS foundation trusts had systems of internal control in place for the financial year 2007-08 and up to the dates of approval of their annual reports and accounts. Each individual statement on internal control explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues, where the risk cannot be effectively controlled.

## Overview of internal control systems within NHS foundation trusts

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

These issues are taken into consideration when Monitor assigns governance risk ratings. Governance ratings range from 'green', where governance arrangements comply with the terms of authorisation; to 'amber' where concerns exist; to 'red' where there is likely to be a significant breach of the terms of authorisation.

In quarter four 2007-08, amber governance risk ratings were assigned to 37 trusts due to concerns over meeting healthcare targets and national core standards. The main areas for breach of targets were a failure to meet MRSA year-on-year reductions and 4-hour waiting times in accident and emergency.

Where an NHS foundation trust meets specific criteria as set out in the *Compliance Framework*, it may be rated red for governance risk. During the year, seven trusts were assigned red governance risk ratings, of which five remained red as at 31 March 2008:

- Calderdale and Huddersfield NHS Foundation Trust, Doncaster and Bassetlaw Hospitals NHS Foundation Trust, Lancashire Teaching Hospitals NHS Foundation Trust, and Poole Hospital NHS Foundation Trust were rated red as a result of governance failures relating to their infection control performance.
- Moorfields Eye Hospital NHS Foundation Trust was rated red as a result of findings of their review of patient information, following the transfer of cancer services in December 2007. The review identified 150 cancer patients which were not properly recorded within the trust's systems. As a result of this issue, the trust declared a breach of all cancer targets.
- Peterborough and Stamford Hospitals NHS Foundation Trust improved its quarter 3 red rating to amber as at 31 March 2008, as a result of improved performance on waiting time targets and its progress on board development following an independent review.
- Gloucestershire Hospitals NHS Foundation Trust was rated red during quarter 2 of 2007-08, due to natural flooding and resultant disruption which impacted on its ability to achieve a number of priority healthcare targets. The rating was revised to amber in quarters 3 and 4 as the trust recovered the position.

In quarter 1 2008-09, Gateshead Health NHS Foundation Trust was red rated as a result of governance failures relating to their infection control performance.

In addition, in quarter 1 2008-09 Royal National Hospital for Rheumatic Diseases was also red rated for governance as a result of serious concerns as to financial governance at the trust. On 4 August 2008, Monitor used its formal powers of intervention.

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 actual or potential breaches of the terms of authorisation.

Monitor is 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 of compliance made by some NHS foundation trust boards as part of their annual plans and quarterly returns.

## Statements on internal control

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

During 2007-08, NHS foundation trusts have improved their management of financial planning and performance, with relatively few and smaller financial deficits compared to previous years. Where required, financial recovery plans have been successfully developed and implemented.

Generally NHS foundation trusts have reported continued improvement in their internal control systems during 2007-08, 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 2007-08 the majority of NHS foundation trusts reported continued focus on further development of internal control systems, including:

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

# Review of individual statements on internal control

The following significant internal control weaknesses were experienced by NHS foundation trusts during the financial year, as reflected in their statements on internal control. Weaknesses that are 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.

## Governance

### MRSA year-on-year reduction

The number of cases of MRSA occurring in NHS foundation trusts continues to decrease year-on-year. Each NHS foundation trust agreed a maximum annual case target with their commissioners against which they would be monitored quarterly: 36 NHS foundation trusts breached their full year target.

Heart of England NHS Foundation Trust, The Newcastle upon Tyne Hospitals NHS Foundation Trust, University Hospitals Birmingham NHS Foundation Trust and Bradford Teaching Hospitals NHS Foundation Trust incurred the largest number of MRSA cases in the sector. At Monitor's request, independent audits of infection control compliance have been completed at these NHS foundation trusts, and the respective boards have designed action plans to address the weaknesses identified.

Seven NHS foundation trusts were identified as not having reduced the number of cases of MRSA year-on-year and having also exceeded their full year target within the first three quarters of the year.

The boards of these trusts were provided the opportunity to demonstrate that they had promptly taken reasonable actions to reduce the number of cases in accordance with levels agreed with their commissioners.

Calderdale and Huddersfield NHS Foundation Trust, Doncaster and Bassetlaw Hospitals NHS Foundation Trust, Lancashire Teaching Hospitals NHS Foundation Trust, and Poole Hospital NHS Foundation Trust were unable to demonstrate this, and were therefore deemed to be in significant breach of their terms of authorisation. As noted above, this has resulted in each of these trusts being awarded a red rating for governance at 31 March 2008 and a risk of further regulatory action in 2008-09.

In addition Gateshead Health NHS Foundation Trust is in significant breach of its terms of authorisation and rated red for governance risk at quarter 1 2008-09 for the same reasons.

### Information governance

Sixty-one NHS foundation trusts disclosed that they have assessed their information security systems, utilising the Information Governance Toolkit provided by the Department of Health. Of these, 49 NHS foundation trusts stated that they had put in place action plans to further improve their control environment. Thirteen NHS foundation trusts indicated that the encryption of portable electronic devices was a key action area for 2008-09. Two NHS foundation trusts reported that IT disaster recovery plans were not adequate at the time of reporting, with action being taken to address the issue.

Moorfields Eye Hospital NHS Foundation Trust made a qualified declaration on information governance and data security during January 2008, as a result of inaccuracies of information recorded on systems.

## Review of individual statements on internal control

The following NHS foundation trusts reported serious untoward instances relating to information governance:

- Calderdale and Huddersfield NHS Foundation Trust reported the loss of a password protected, but not encrypted, laptop. This held 80 patient identifiable records.
- Cambridge University Hospitals NHS Foundation Trust reported that 1,252 patient identifiable records were left in hard and electronic formats on a bus.
- The Christie NHS Foundation Trust had two password protected (but not encrypted) laptops stolen from a locked office. These laptops held patient identifiable data.
- Guy's and St Thomas' NHS Foundation Trust reported the loss of paper documents containing patient identifiable information from outside NHS premises.
- North Tees and Hartlepool NHS Foundation Trust reported that a member of the ambulance service posted an x-ray image on a social networking site. This did not contain patient identifiable information, however it was deemed a serious breach.
- Sheffield Children's NHS Foundation Trust reported three incidents during 2007-08. The first was the theft of a password protected, but not encrypted, laptop from a member of staff's home. Approximately 100 patient identifiable records were stored on the laptop. The second and third incidents involved the insecure disposal of inadequately protected electronic equipment, devices or paper documents.
- Tavistock and Portman NHS Foundation Trust reported the loss of an unencrypted data stick with patient identifiable records.

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

### Priority 1 and 2 healthcare targets

National targets set by the Department of Health have been categorised as priority 1 and 2, reflecting national priorities.

Excluding the 36 MRSA target breaches, NHS foundation trusts breached eight other priority 1 targets. In addition 43 breaches of the seven priority 2 targets were reported.

Within priority 2 targets, 27 trusts breached the 4-hour accident and emergency wait target in quarter 4 of 2007-08.

For all breaches, Monitor requires NHS foundation trusts to develop, implement and monitor an action plan to address the breaches in controls resulting in failed targets.

### Healthcare Commission self-assessment

The Healthcare Commission requires NHS foundation trusts to perform self-assessments of their compliance with clinical standards. A declaration of compliance or breach is made by each NHS foundation trust. Fifteen 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 31 March 2008.

### Corporate governance

Three NHS foundation trusts reported other incidents of non-compliance with their terms of authorisation relating to corporate governance during the year. The issues reported related to the appointment of non-executive directors, the role of the Chairman and Chief Executive and the balance of the Board of Directors. In all reported instances, trusts report that action plans have been put in place.

### Payroll

Nine NHS foundation trusts reported internal control weaknesses relating to payroll. Of these, four NHS foundation trusts reported control weaknesses surrounding the implementation and processing of the electronic staff records combined HR and payroll system (ESR).

Gloucestershire Hospitals NHS Foundation Trust reported control weaknesses in the calculation of Agenda for Change arrears to staff in two separate audits.

Heart of England NHS Foundation Trust reported that Internal Audit was unable to provide any assurance over the payroll control environment. This has arisen in a period of considerable change in the payroll department. Firstly, in April 2007, the NHS foundation trust implemented the new ESR combined HR and payroll system. Secondly, the NHS foundation trust brought the previously outsourced payroll of Good Hope Hospital in-house.

The trust's payroll function has incurred significant service difficulties during the period under review, as the number of payroll transactions increased from 8,000 to 14,000 per month. The internal audit report highlighted four high-risk weaknesses and 36 medium-risk weaknesses which the board has agreed and addressed in an action plan.

### Financial

Monitor's financial risk ratings (FRR) 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 NHS foundation trust had a FRR of 1 in the year. For quarter 1, University College London Hospitals NHS Foundation Trust had a FRR of 2; this improved to 3 for quarter 2 and the remainder of the year. For quarters 1 and 2 Tavistock and Portman NHS Foundation Trust had a FRR of 2; this improved to 3 for quarters 3 and 4. At the end of quarter 3 no foundation trust had a FRR of 2.

Of the 89 NHS foundation trusts authorised at 31 March 2008, 88 achieved a surplus before impairments, profits or losses on disposals of fixed assets and exceptional items for the full year. Only Royal National Hospital for Rheumatic Diseases NHS Foundation Trust generated a deficit, delivering a FRR of 2 at quarter 4 2007-08. All other foundation trusts had a FRR of 3 or better for each quarter.



# Review of individual statements on internal control

## Royal National Hospital for Rheumatic Diseases NHS Foundation Trust

In April 2008 the recently appointed Director of Finance (and the trust advisors) identified weaknesses in the way in which the NHS foundation trust accrues for income and expenditure, and in control accounts which will have a significant effect on the financial position of the NHS foundation trust. This significant control weakness resulted in the financial risk rating of 2 in quarter 4 2007-08, a reduction from the rating of 3 achieved during other quarters, and a financial risk rating of 1 for its Annual Plan 2008-09.

On 4 August 2008 Monitor used its formal powers to intervene under Section 52 of the Act and in particular to ensure that appropriate regulatory control was in place to assist in the maintenance and protection of the services the NHS foundation trust provides for patients.

Subsequent to this action, and following changes to the Board, an independent review of governance and controls, review of cash forecasts and renewal of banking facilities, the trust is developing its strategic plan and this will be subject to review by Monitor during November and December 2008.

**Dr William Moyes**  
Executive Chairman  
20 October 2008

# 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 2008 in accordance with the letter of engagement dated 19 August 2005. These comprise the income and expenditure account, the balance sheet, the cashflow statement and statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set by the Independent Regulator of NHS Foundation Trusts (Monitor), in line with the *NHS Foundation Trust Financial Reporting Manual* (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 49, 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 in 2007-08, is consistent with the financial statements.

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

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

I read the other information contained in the review and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

My responsibilities do not extend to any other information.

## Basis of audit opinion

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

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

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 2008 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 in 2007-08 is consistent with the financial statements.

## T J Burr

Comptroller and Auditor General

24 October 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

# Consolidated income and expenditure account

## Year ended 31 March 2008

	Note	2007-08 (£ million)	Restated 2006-07 (£ million)
Income from activities	3	14,055.4	8,847.0
Other operating income	4	2,106.8	1,430.5
Impairments		(132.9)	(161.4)
Operating expenses	5	(15,382.9)	(9,935.0)
Operating surplus		646.4	181.1
Exceptional items	7	6.2	(2.1)
Profit/(loss) on disposal of fixed assets	8	(1.1)	21.2
Surplus before interest		651.5	200.2
Interest receivable	9.1	107.9	39.7
Interest payable	9.2	(9.7)	(4.9)
Other finance costs – unwinding of discount	16	(2.7)	(1.8)
Surplus before taxation		747.0	233.2
Taxation		0.2	(0.2)
Surplus after taxation		747.2	233.0
PDC dividends payable	17	(351.9)	(235.9)
Retained surplus/(deficit) for the year		395.3	(2.9)

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.

All operations are continuing.

The notes on pages 63 to 96 form part of these accounts.

# Consolidated statement of total recognised gains and losses

## Year ended 31 March 2008

	Note	2007-08 (£ million)	Restated 2006-07 (£ million)
Surplus for the financial year before dividend payments		747.2	233.0
Fixed asset impairment losses	19	(112.4)	(11.6)
Unrealised surplus on fixed assets and current asset investments revaluations	19	842.0	96.2
Increase in the donated asset reserve due to receipt of donated assets	19	58.4	41.5
Reductions in the donated asset reserve due to depreciation, impairment, and/or disposal of donated assets	19	(42.9)	(30.8)
Additions in "Other reserves"	19	0.5	0.0
Other recognised gains and losses	19	0.0	(3.3)
<b>Total recognised gains and losses for the financial year</b>		<b>1,492.8</b>	<b>325.0</b>
Prior period adjustments		(5.5)	(13.3)
<b>Total recognised gains and losses since the last financial year</b>		<b>1,487.3</b>	<b>311.7</b>

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.

The notes on pages 63 to 96 form part of these accounts.

# Consolidated balance sheet

## As at 31 March 2008

	Note	2007-08 (£ million)	Restated 2006-07 (£ million)
<b>Fixed assets</b>			
Intangible assets	10	48.3	30.9
Tangible assets	11	13,186.5	8,948.8
<b>Total fixed assets</b>		<b>13,234.8</b>	<b>8,979.7</b>
<b>Current assets</b>			
Stocks and work in progress	12	222.4	174.6
Debtors amounts due within one year	13.1	827.3	690.6
Investments	14	374.1	228.0
Cash at bank and in hand		1,893.4	767.0
<b>Total current assets</b>		<b>3,317.2</b>	<b>1,860.2</b>
<b>Creditors</b>			
Amounts falling due within one year	15.1	(2,231.7)	(1,358.3)
<b>Net current assets</b>		<b>1,085.5</b>	<b>501.9</b>
<b>Long-term debtors</b>			
Amounts due after one year	13.2	241.4	195.8
<b>Total assets less current liabilities</b>		<b>14,561.7</b>	<b>9,677.4</b>
<b>Long-term creditors</b>			
Amounts falling due after more than one year	15.2	(227.4)	(158.9)
Provision for liabilities and charges	16	(317.1)	(219.2)
<b>Total assets employed</b>		<b>14,017.2</b>	<b>9,299.3</b>
<b>Financed by taxpayers' equity</b>			
Public dividend capital	18	7,803.3	5,695.2
Revaluation reserve	19	4,564.8	2,745.4
Donated asset reserve	19	722.6	553.0
Other reserves	19	5.3	8.5
Income and expenditure reserve	19	921.2	297.2
<b>Total taxpayers' equity</b>		<b>14,017.2</b>	<b>9,299.3</b>

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.

The notes on pages 63 to 96 form part of these accounts.

**Dr William Moyes**  
Executive Chairman  
20 October 2008

# Consolidated cash flow statement

## Year ended 31 March 2008

	Note	2007-08 (£ million)	Restated 2006-07 (£ million)
Net cash inflow from operating activities	20.1	1,825.9	757.4
<b>Returns on investment and servicing of finance</b>			
Interest received		106.4	39.4
Interest paid		(6.7)	(3.4)
Interest element of finance lease rental payments		(2.9)	(1.3)
Net cash inflow from returns on investments and servicing of finance		96.8	34.7
Taxation paid		(0.0)	(0.2)
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets		(889.3)	(512.6)
Receipts from sale of tangible fixed assets		61.9	168.8
Payments to acquire intangible assets		(16.9)	(12.4)
Net cash outflow from capital expenditure		(844.3)	(356.2)
Dividends paid		(369.4)	(254.7)
Net cash inflow before management of liquid resources and financing		709.0	181.0
<b>Management of liquid resources</b>			
Purchase of current asset investments		(4,479.2)	(1,763.1)
Sale of current asset investments		4,339.8	1,614.7
Net cash outflow from management of liquid resources		(139.4)	(148.4)
Net cash inflow before financing		569.6	32.6
<b>Financing</b>			
New public dividend capital received		357.5	270.9
Public dividend capital repaid		(109.5)	(14.8)
Loans received from Foundation Trust Financing Facility		56.0	58.2
Other loans received		0.0	34.0
Loans repaid to Foundation Trust Financing Facility		(3.9)	(3.0)
Other loans repaid		(3.9)	(30.0)
Other capital receipts		35.6	32.2
Capital element of finance lease rental payments		(1.0)	(0.2)
Net cash inflow from financing		330.8	347.3
Increase in cash	20.2	900.4	379.9

The notes on pages 63 to 96 form part of these accounts.

# Notes to the accounts

## 1 Accounting policies

### Accounting convention

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

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

### Basis of consolidation

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

NHS foundation trusts have been included within these accounts using the acquisition method of accounting as if they were wholly owned subsidiaries even though Monitor is not the parent undertaking. Accordingly, the income and expenditure and the statement of cash flows include the results and cash flows of the NHS foundation trusts from the date of authorisation for each organisation. The opening balance is nil, with the assets and liabilities being brought into the balance sheet on the day of transfer at the carrying value for the NHS trust unless materially different to fair value. No such adjustments were necessary in 2007-08.

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

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

### Prior year comparatives

The prior year comparative figures relate only to those NHS foundation trusts that became foundation trusts in 2004-05 and 2005-06. For those foundation trusts that were authorised in 2006-07, the comparatives are only for the financial period from the date of authorisation up until 31 March 2007. The prior year figures are not, therefore, directly comparable with current year figures. The results of NHS foundation trusts that were authorised in 2007-08 are not shown separately from the results of the existing NHS foundation trusts and there are no prior year comparatives for these bodies.



# Notes to the accounts

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

Operations not satisfying these conditions are classified as continuing.

## Income recognition

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

## Expenditure

Expenditure is accounted for applying the accruals convention.

## Pooled budgets

Some of the NHS foundation trusts have entered into a pooled budget with local authorities. Under the arrangement funds are pooled under S31 of the Health Act 1999 for 2007-08 activities 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 set-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. An interim valuation was carried out in the current year at the prospective valuation date to 1 April 2008 and has been accounted for on 31 March 2008. The valuations are carried out primarily on the basis of depreciated replacement cost for specialised operational property and existing use value for non-specialised operational property, including land for existing use. Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

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

#### Depreciation, amortisation and impairments

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land or 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.

# Notes to the accounts

## 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. This legislation became effective from 5 September 2005. Where required a provision has been made in the Income and Expenditure Account for the payment of corporation tax.

## 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 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. Partially completed contracts for patient services are not accounted for as work in progress.

## Cash, bank and overdrafts

Cash, bank and overdraft balances are recorded at the current values of these balances in the NHS foundations trusts' cash books. These balances exclude monies held in the NHS foundation trusts' bank accounts belonging to patients (see "third party assets" on page 69). Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases, overdrafts are disclosed within creditors. Interest earned on bank accounts and interest charged on overdrafts is recorded as, respectively, "interest receivable" and "interest payable", in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

### Research and development

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

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

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

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

### Provisions

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 trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed in Note 16 to the Accounts.

# Notes to the accounts

## Non-clinical risk pooling

NHS foundation trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the 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

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

The scheme is subject to a full actuarial investigation every four years. The last such investigation was published in December 2007 and covered the period 1 April 1999 to 31 March 2004. Between the full actuarial valuations, the Government Actuary provides an annual update of the scheme liabilities for FRS 17 purposes. The conclusion of 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. The basis of this conclusion is set out in a report by the Government Actuary, which can be found on the NHS Pensions website, [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

Employer pension cost contributions are charged to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the Government Actuary.

Subject to the implementation of proposed changes to the scheme, which are expected to reduce both the value of accrued liabilities and the build up of future liabilities, from 1 April 2008, the employer contribution will be maintained at its existing level of 14%. Up to 31 March 2008, employees paid contributions of 6% (manual staff 5%) of their pensionable pay. From 1 April 2008, employees will pay contributions according to a tiered scale from 5% up to 8.5%.

The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three years pensionable pay is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971 and are based on changes in retail prices in the months ending 30 September in the previous calendar year.

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

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

Under the arrangement employees can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill health. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time a trust commits itself to the retirement, regardless of the method of payment. The pension payments for the period are charged to the income and expenditure accounts. Details are included in note 6.4 to the accounts.

#### 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.

#### Foreign exchange

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

#### Third party assets

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

#### Leases

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

#### Public dividend capital

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

# Notes to the accounts

## Financial instruments

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 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 foundation trust becomes 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 foundation trusts have 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'

### 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. 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. The 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 HM Treasury's discount rate of 2.2%.

#### **Impairment of financial assets**

At the balance sheet date, the foundation 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 foundation 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.



# Notes to the accounts

## 2 Segmental reporting

	Healthcare (£ million)	Other (£ million)	Total (£ million)	Restated 2006/07 (£ million)
Income from activities	14,035.8	19.6	14,055.4	8,847.0
Other operating income	2,054.8	52.0	2,106.8	1,430.5
<b>Total income</b>	<b>16,090.6</b>	<b>71.6</b>	<b>16,162.2</b>	<b>10,277.5</b>
Surplus/(deficit) before interest and common costs	1,095.4	(0.1)	1,095.3	200.4
Common costs	(443.0)	(0.8)	(443.8)	(0.2)
Surplus/(deficit) before interest	652.4	(0.9)	651.5	200.2
<b>Total assets employed</b>	<b>14,016.3</b>	<b>0.9</b>	<b>14,017.2</b>	<b>9,299.3</b>

Guy's and St Thomas' NHS Foundation Trust has not reported the results of the different segments of its activities separately as it is the opinion of the Directors that this would be seriously prejudicial to the interests of both the foundation trust and its related parties, so all its figures (income £775.4 million, surplus before interest £67.2 million, assets employed £929.0 million) appear in the "Healthcare" segment.

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.

### 3.1 Income from activities – by activity

	2007-08 (£ million)	Restated 2006-07 (£ million)
<b>Acute foundation trusts</b>		
Elective income	2,889.6	1,966.0
Non elective income	3,649.6	2,582.7
Outpatient income	2,072.8	1,438.0
Other NHS clinical income*	3,137.6	2,212.7
A&E income	393.3	275.1
<b>Acute trust income</b>	<b>12,142.9</b>	<b>8,474.5</b>
<b>Mental health foundation trusts</b>		
PCT contract income	1,454.4	n/a*
Clinical partnerships providing mandatory services (including S31 agreements)	79.9	n/a*
Clinical income for the secondary commissioning of mandatory services	20.6	n/a*
Other clinical income from mandatory services	74.1	n/a*
<b>Mental health trust income*</b>	<b>1,629.0</b>	<b>269.6</b>
<b>All foundation trusts</b>		
PBR relief/(clawback)	29.1	(21.1)
Private patient income	165.2	124.0
Other non-protected clinical income	89.2	0.0
<b>Total income from activities</b>	<b>14,055.4</b>	<b>8,847.0</b>

\*Comparatives for mental health NHS foundation trust income are not available. In 2006-07 all mental health NHS foundation trust income was included in the line "Other NHS clinical income" but has been disclosed here separately as far as possible.

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

	2007-08 (£ million)	Restated 2006-07 (£ million)
NHS trusts	35.9	37.5
Strategic health authorities	91.9	3.5
Primary care trusts	12,493.1	7,933.7
Local authorities	190.4	25.5
Department of Health – grants	22.9	68.9
Department of Health – other	854.7	546.3
NHS other	87.7	36.2
Non-NHS: private patients	165.2	124.0
Non-NHS: overseas patients (non-reciprocal)	7.5	6.0
NHS injury scheme (was Road Traffic Act)	47.0	29.5
Non-NHS: other	59.1	35.9
Total income from activities	14,055.4	8,847.0

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.

### 3.3 Private patient income

NHS foundation trusts received £165.2 million of private patient income in 2007-08 (2006-07: £124.0 million). This figure represents 1.3% of the total patient related income of NHS foundation trusts in 2007-08 (2006-07: 1.4%).

At the time of authorisation of each NHS foundation trust Monitor sets a limit, expressed as a percentage of the trust's total patient related income, for the amount of private patient income that NHS foundation trust can generate (the Private Patient Income cap). In their annual accounts NHS foundation trusts disclose, and their auditors check, the actual percentage of patient related income which private patient income comprises. In 2007-08 no NHS foundation trust breached its Private Patient Income cap.

# Notes to the accounts

## 4 Other operating income

	2007-08 (£ million)	Restated 2006-07 (£ million)
Research and development	218.7	175.9
Education and training	842.4	539.8
Charitable and other contributions to expenditure	39.0	25.5
Transfers from the donated asset reserve in respect of depreciation, impairment and disposal of donated assets	42.9	30.8
Non-patient care services to other bodies	416.7	268.9
Other*	547.1	389.6
<b>Total other operating income</b>	<b>2,106.8</b>	<b>1,430.5</b>

\*This income includes income from catering, car parking, pharmacy manufacturing, etc.

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.

## 5.1 Operating expenses

	2007-08 (£ million)	Restated 2006-07 (£ million)
Services from NHS trusts	137.2	103.2
Services from other NHS bodies	121.4	103.0
Purchase of healthcare from non NHS bodies	134.7	47.8
Executive directors costs	64.7	38.1
Non-executive directors costs	10.2	4.8
Staff costs	9,811.6	6,330.0
Drug costs	1,128.6	747.5
Supplies and services – clinical (excluding drug costs)	1,423.4	945.5
Supplies and services – general	313.2	206.6
Establishment	222.7	131.4
Research and development	18.0	5.5
Transport	59.3	35.8
Premises	853.2	534.5
Increase in bad debt provision	17.4	21.5
Depreciation and amortisation	535.6	352.5
Audit fees	6.0	4.3
Other auditor remuneration*	1.6	0.9
Clinical negligence	141.9	105.1
Net increase in provisions	74.8	70.3
Other	307.4	146.7
<b>Total operating expenses</b>	<b>15,382.9</b>	<b>9,935.0</b>

\*Other auditor remuneration includes £0.6 million in respect of further assurance services and £1.0 million for other services.

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.

## 5.2 Hire and operating lease rentals

	2007-08 (£ million)	2006-07 (£ million)
Hire of plant and machinery	37.3	25.4
Other operating lease rentals	121.7	76.0
<b>Total hire and operating lease rentals</b>	<b>159.0</b>	<b>101.4</b>

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

	Land & buildings (£ million)	Other (£ million)
Expiring within one year	3.8	11.6
Expiring between one and five years	13.8	41.3
Expiring after five years	94.9	11.6
<b>Total committed hire and operating lease payments for 2008-09</b>	<b>112.5</b>	<b>64.5</b>

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

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 was below £3,000.

## 6.1 Staff costs

	2007-08 Total (£ million)	Permanently employed (£ million)	Other (£ million)	Restated 2006-07 Total (£ million)
Salaries and wages	8,068.5	7,918.9	149.6	5,209.4
Social security costs	628.1	618.5	9.6	412.2
Employers contributions to NHSPA	902.5	895.0	7.5	584.3
Other pension costs	3.0	2.1	0.9	1.1
Agency/contract staff	324.7	0.0	324.7	179.1
<b>Total staff costs</b>	<b>9,926.8</b>	<b>9,434.5</b>	<b>492.3</b>	<b>6,386.1</b>

Staff costs here and in note 5.1 differ by the cost of staff seconded between NHS organisations and staff recharged between NHS organisations.

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.

# Notes to the accounts

## 6.2 Staff numbers

	2007-08 Total	Permanently employed	Other	Restated 2006-07 Total
Medical and dental	33,116	30,293	2,823	24,378
Ambulance staff	17	17	0	13
Administration and estates	62,018	60,539	1,479	44,641
Healthcare assistants and other support staff	37,684	36,826	858	25,628
Nursing, midwifery and health visiting staff	104,614	102,641	1,973	77,883
Nursing, midwifery and health visiting learners	2,690	2,637	53	1,091
Scientific, therapeutic and technical staff	41,112	40,403	709	32,070
Social care staff	1,009	658	351	253
Bank and agency staff	8,876	0	8,876	3,496
Other	3,474	3,339	135	3,017
<b>Total staff numbers*</b>	<b>294,610</b>	<b>277,353</b>	<b>17,257</b>	<b>212,470</b>

\*All numbers shown are based on average whole time equivalents for the twelve months.

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.

## 6.3 Staff benefits

The amount spent on staff benefits during the year totalled £0.9 million (2006-07 restated: £2.2 million).

## 6.4 Pensions

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. In 2007-08 the contribution rate was 14% (2006-07: 14%).

## 6.5 Retirements due to ill health

During 2007-08 there were 422 retirements on the grounds of ill-health (2006-07: restated 313). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) will be £26.8 million (2006-07: restated £18.0 million).

## 7 Exceptional items

	2007-08 (£ million)	2006-07 (£ million)
Cheshire and Wirral Partnership NHS Foundation Trust	(0.1)	0.0
City Hospitals Sunderland NHS Foundation Trust	(0.3)	(0.5)
County Durham and Darlington NHS Foundation Trust	(0.2)	0.0
East London NHS Foundation Trust	(0.4)	0.0
North Tees and Hartlepool NHS Foundation Trust	(0.4)	0.0
The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust	0.0	2.9
The Royal Marsden NHS Foundation Trust	9.8	0.0
Salford Royal NHS Foundation Trust	(1.9)	0.0
Stockport NHS Foundation Trust	0.0	(1.1)
University College London Hospitals NHS Foundation Trust	0.0	(3.4)
Together NHS Foundation Trust (formerly known as Gloucestershire Partnership)	(0.3)	0.0
<b>Total</b>	<b>6.2</b>	<b>(2.1)</b>

### 2007-08

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

Exceptional income at The Royal Marsden NHS Foundation Trust represents insurance and other compensatory income received as a result of part of the trust's estate being destroyed by fire.

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

### 2006-07

Exceptional costs at City Hospitals Sunderland NHS Foundation Trust were voluntary redundancy costs associated with the trust's financial recovery plan.

Exceptional income at The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust was the writeback of doubtful debt provided for in prior year.

Exceptional costs at Stockport NHS Foundation Trust were new injury benefit obligations.

Exceptional costs at University College London Hospitals NHS Foundation Trust were the costs of restructuring.

# Notes to the accounts

## 8 Profit/(loss) on disposal of fixed assets

	2007-08 (£ million)	Restated 2006-07 (£ million)
Loss on disposal of intangible fixed assets	0.0	(0.1)
Profit on disposal of land and buildings	6.4	27.8
Loss on disposal of land and buildings	(2.4)	(2.8)
Profit on disposal of other tangible fixed assets	0.1	0.0
Loss on disposal of other tangible fixed assets	(5.2)	(3.7)
Total profit/(loss) on disposal of fixed assets	(1.1)	21.2

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.

## 9.1 Finance income – interest receivable

	2007-08 (£ million)	2006-07 (£ million)
Interest on loans and receivables	67.4	n/a*
Interest on held-to-maturity financial assets	5.8	n/a*
Other	34.7	n/a*
Total interest receivable	107.9	39.7

\*Prior year comparatives are not available as this is the first year of adoption of this disclosure.

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

## 9.2 Finance cost – interest payable

	2007-08 (£ million)	2006-07 (£ million)
Loans from the Foundation Trust Financing Facility	(6.5)	n/a*
Overdrafts	(0.2)	n/a*
Finance leases	(2.8)	n/a*
Other	(0.2)	n/a*
Total interest payable	(9.7)	(4.9)

\*Prior year comparatives are not available as this is the first year of adoption of this disclosure.

## 10 Intangible fixed assets

	2007-08 Total (£ million)	Restated 2006-07 (£ million)
Gross cost at 1 April	50.6	22.5
Gross cost at start of period for new NHS foundation trusts	13.6	14.4
Reclassifications	(4.1)	0.7
Additions – purchased	20.8	13.2
Additions – donated	0.1	0.1
Disposals	(1.8)	(0.3)
Gross cost at 31 March	79.2	50.6
Amortisation at 1 April	19.7	9.7
Amortisation at start of period for new NHS foundation trusts	5.7	6.4
Provided during the year	9.3	3.6
Reclassifications	(2.1)	0.1
Disposals	(1.7)	(0.1)
Amortisation at 31 March	30.9	19.7
Net book value (NBV) – purchased at 1 April	30.5	12.4
NBV – donated at 1 April	0.4	0.4
NBV total at 1 April	30.9	12.8
NBV – purchased at 31 March	48.1	30.5
NBV – donated at 31 March	0.2	0.4
NBV total at 31 March	48.3	30.9

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.



# Notes to the accounts

## 11.1 Tangible fixed assets

	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)
Restated cost or valuation at 1 April 2007	10,937.1	1,907.9	6,201.9	115.0	387.0	1,790.4	14.9	410.8	109.2
Cost or valuation at start of period for new NHS foundation trusts	3,945.6	822.3	2,419.7	41.4	64.3	399.1	6.7	153.3	38.8
Additions – purchased	849.9	28.2	235.6	1.6	360.8	150.7	1.2	64.5	7.3
Additions – donated	59.0	0.0	10.0	0.0	31.5	16.2	0.3	0.7	0.3
Impairments	(211.8)	(38.7)	(164.3)	(3.1)	(3.1)	(2.3)	0.0	(0.3)	0.0
Reclassifications	4.1	5.1	377.5	(6.0)	(471.6)	61.7	0.2	32.6	4.6
Other revaluations	430.5	362.2	24.6	6.5	14.9	20.6	0.3	0.1	1.3
Disposals	(244.3)	(27.3)	(40.5)	(2.1)	(1.0)	(148.1)	(1.8)	(20.1)	(3.4)
Cost or valuation at 31 March 2008	15,770.1	3,059.7	9,064.5	153.3	382.8	2,288.3	21.8	641.6	158.1
Restated depreciation at 1 April 2007	1,988.3	0.0	511.7	9.9	0.0	1,142.0	11.6	249.5	63.6
Depreciation at start of period for new NHS foundation trusts	629.8	0.0	253.7	3.9	0.0	250.7	5.2	92.4	23.9
Provided during the year	526.3	0.0	281.3	4.5	0.0	168.2	1.4	61.8	9.1
Impairments	34.4	2.4	29.6	2.4	0.0	0.0	0.0	0.0	0.0
Reversal of impairments	(0.9)	0.0	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications	2.1	0.0	0.0	0.0	0.0	(0.2)	0.0	2.3	0.0
Other revaluations	(411.4)	0.0	(414.9)	(8.0)	0.0	10.6	0.2	0.0	0.7
Disposals	(185.0)	0.0	(18.0)	(0.1)	0.0	(142.4)	(1.6)	(19.8)	(3.1)
Depreciation at 31 March 2008	2,583.6	2.4	642.5	12.6	0.0	1,428.9	16.8	386.2	94.2
NBV – purchased restated at 1 April 2007	8,473.3	1,909.8	5,323.4	104.2	369.2	561.2	3.0	159.3	43.2
NBV – donated restated at 1 April 2007	475.5	(1.9)	366.8	0.9	17.8	87.2	0.3	2.0	2.4
NBV total at 1 April 2007	8,948.8	1,907.9	5,690.2	105.1	387.0	648.4	3.3	161.3	45.6
NBV – purchased at 31 March 2008	12,455.7	2,963.0	7,935.4	139.0	346.8	754.6	4.4	252.8	59.7
NBV – donated at 31 March 2008	730.8	94.3	486.6	1.7	36.0	104.8	0.6	2.6	4.2
NBV total at 31 March 2008	13,186.5	3,057.3	8,422.0	140.7	382.8	859.4	5.0	255.4	63.9

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.

## 11.2 Analysis of tangible fixed assets

	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)
NBV – protected assets at 31 March 2008	10,198.9	2,477.8	7,676.7	44.4	0.0	0.0	0.0	0.0	0.0
NBV – unprotected assets at 31 March 2008	2,987.6	579.5	745.3	96.3	382.8	859.4	5.0	255.4	63.9
Total at 31 March 2008	13,186.5	3,057.3	8,422.0	140.7	382.8	859.4	5.0	255.4	63.9

## 12 Stocks and work in progress

	2007-08 (£ million)	Restated 2006-07 (£ million)
Raw materials and consumables	208.2	168.0
Work in progress	0.4	0.4
Finished goods	13.8	6.2
Total stocks and work in progress	222.4	174.6

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.

## 13 Debtors

	2007-08 (£ million)	Restated 2006-07 (£ million)
<b>13.1 Debtors falling due within one year</b>		
NHS debtors	438.2	418.6
Prepayments and accrued income	171.8	118.3
Other debtors	308.7	227.2
Provision for irrecoverable debts	(91.4)	(73.5)
Total debtors falling due within one year	827.3	690.6
<b>13.2 Debtors falling due after more than one year</b>		
NHS debtors	32.2	13.8
Prepayments and accrued income	106.8	87.7
Other debtors	106.1	95.8
Provision for irrecoverable debts	(3.7)	(1.5)
Total debtors falling due after more than one year	241.4	195.8
Total debtors	1,068.7	886.4

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.

# Notes to the accounts

## 14 Current asset investments

	2007-08 (£ million)	Restated 2006-07 (£ million)
Cost or valuation at 1 April	228.0	52.4
Cost or valuation at start of period for new NHS foundation trusts	6.7	20.1
Additions	4,409.2	1,770.5
Disposals	(4,269.8)	(1,627.9)
Revaluations	0.0	12.9
<b>Total current asset investments at cost or valuation at 31 March</b>	<b>374.1</b>	<b>228.0</b>

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.

## 15 Creditors

	2007-08 (£ million)	Restated 2006-07 (£ million)
<b>15.1 Creditors falling due within one year</b>		
Bank overdrafts	8.7	0.4
Current instalments due on loans	11.9	16.2
Interest payable	0.6	0.4
Payments received on account	115.0	38.1
NHS creditors	315.1	308.0
Corporation tax payable	0.8	2.1
Other tax and social security costs	235.4	161.4
Obligations under finance leases and HP contracts	2.1	1.6
Capital creditors	145.9	76.5
Other creditors	524.1	324.3
Accruals and deferred income	872.1	429.3
<b>Total creditors falling due within one year</b>	<b>2,231.7</b>	<b>1,358.3</b>
<b>15.2 Creditors falling due after more than one year</b>		
Long-term loans	156.4	104.1
Obligations under finance leases and HP contracts	33.6	26.9
NHS creditors	2.0	0.1
Other	35.4	27.8
<b>Total creditors falling due after more than one year</b>	<b>227.4</b>	<b>158.9</b>
<b>Total creditors</b>	<b>2,459.1</b>	<b>1,517.2</b>

Included in the NHS creditors figures above is £55.5 million in outstanding pension contributions as 31 March 2008 and £2.4 million in respect of the liability figures for early retirements over 5 years, representing 259 cases.

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.

### 15.3 Prudential Borrowing Limit

At the time of authorisation and on the review of NHS foundation trusts' annual plans each year, Monitor sets a borrowing limit for each NHS foundation trust based on the criteria set out in Monitor's *Prudential Borrowing Code*. This borrowing limit comprises two parts, a limit for working capital borrowing (or facility), and a limit for long-term borrowing (which includes the current instalments due on loans, long-term loans and obligations under finance leases). Each NHS foundation trust is then able to borrow up to these limits as its Board of Directors sees fit.

	2007-08 (£ million)	Restated 2006-07 (£ million)
Total long-term borrowing limit set by Monitor	3,203.0	2,182.8
Working capital facility agreed by Monitor	1,245.7	884.4
Total Prudential Borrowing Limit set by Monitor	4,448.7	3,067.2
Long-term borrowing at 1 April	143.0	73.1
Net actual borrowing in year – long-term	48.4	69.9
Total long-term borrowing at 31 March	191.4	143.0
Working capital borrowing at 1 April	0.3	3.9
Net actual borrowing/(repayment) in year – working capital	8.4	(3.6)
Total working capital borrowing at 31 March	8.7	0.3

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

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.

### 15.4 Loans

	2007-08 (£ million)	2006-07 (£ million)
Payments of loan principal falling due:		
– within one year	11.9	16.2
– between one and two years	10.5	*n/a
– between two and five years	31.9	*n/a
– after five years	114.0	*n/a
Total loan principal due	168.3	120.3
of which:		
– wholly repayable within 5 years	54.3	*n/a
– wholly repayable after 5 years, not by instalments	0.0	*n/a
– wholly repayable after 5 years, by instalments	114.0	*n/a
Total loan principal due	168.3	120.3

\*Prior year comparatives are not available in detail as this is the first year of adoption of this disclosure.

# Notes to the accounts

## 15.5 Finance lease obligations

	2007-08 (£ million)	Restated 2006-07 (£ million)
Leases payable:		
– within one year	4.1	2.9
– between one and five years	17.0	12.1
– after five years	78.2	73.4
Subtotal	99.3	88.4
Finance charges allocated to future periods	(63.6)	(59.9)
Net finance lease obligations	35.7	28.5

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.

## 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 2007	219.2	2.3	76.0	23.7	117.2
At start of period for new NHS foundation trusts	84.2	0.5	42.9	7.2	33.6
Arising during the year	100.5	0.2	8.4	10.9	81.0
Utilised during the year	(63.8)	(0.3)	(8.6)	(5.5)	(49.4)
Reversed unused	(25.7)	0.0	(1.6)	(4.8)	(19.3)
Unwinding of discount	2.7	0.1	2.2	0.1	0.3
Provisions for liabilities and charges at 31 March 2008	317.1	2.8	119.3	31.6	163.4
<b>Expected timing of cashflows</b>					
Within one year	149.8	0.3	11.1	17.6	120.8
Between one and five years	69.8	1.2	36.2	9.2	23.2
After five years	97.5	1.3	72.0	4.8	19.4
Total	317.1	2.8	119.3	31.6	163.4

\*Other provisions include amounts in relation to potential liabilities included in the underlying accounts of NHS foundation trusts.

£1,222.6 million is included in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities in respect of NHS foundation trusts (2006-07: restated £723.0 million).

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.

## 17 Movement in taxpayers' equity

	2007-08 (£ million)	Restated 2006-07 (£ million)
At 1 April	9,299.3	5,379.4
Taxpayers' equity at start of period for new NHS foundation trusts	3,335.2	3,587.8
Surplus for the financial year	747.2	233.0
Public dividend capital dividends	(351.9)	(235.9)
Fixed asset impairments	(112.4)	(11.6)
Surplus from revaluations of fixed assets and current asset investments	842.0	96.2
New public dividend capital received	321.3	270.9
Public dividend capital repaid in year	(93.3)	(14.8)
Public dividend capital repayable	13.1	(13.2)
Other movements in public dividend capital in year	0.7	0.0
Additions in donated asset reserve	15.5	11.0
Additions/(reductions) in other reserves	0.5	(3.5)
Taxpayers' equity at 31 March	14,017.2	9,299.3

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.

## 18 Movement in public dividend capital

	2007-08 (£ million)	Restated 2006-07 (£ million)
Public dividend capital at 1 April	5,695.2	3,288.4
Public dividend capital at start of period for new NHS foundation trusts	1,866.3	2,163.9
New public dividend capital received	321.3	270.9
Public dividend capital repaid in year	(93.3)	(14.8)
Public dividend capital repayable	13.1	(13.2)
Other movements in public dividend capital in year*	0.7	0.0
Public dividend capital at 31 March	7,803.3	5,695.2

\*Other movements refer to adjustments to PDC at City Hospitals Sunderland NHS Foundation Trust, Gateshead Health NHS Foundation Trust and King's College Hospital NHS Foundation Trust.

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.

# Notes to the accounts

## 19 Movement in reserves

	Total (£ million)	Revaluation Reserve (£ million)	Donated Asset Reserve (£ million)	Other Reserves (£ million)	Income & Expenditure Reserve (£ million)
At 1 April 2007, as restated	3,604.1	2,745.4	553.0	8.5	297.2
At start of period for new NHS foundation trusts	1,468.9	1,180.9	97.3	(1.2)	191.9
Transfer from the income and expenditure account	395.3	0.0	0.0	0.0	395.3
Fixed asset impairments	(112.4)	(105.6)	(6.8)	0.0	0.0
Surplus on revaluations of fixed assets and current asset investments	842.0	773.9	68.1	0.0	0.0
Transfer of realised profits/(losses) to the income and expenditure reserve	0.0	(20.7)	(4.8)	0.0	25.5
Receipt of donated assets	58.4	0.0	58.4	0.0	0.0
Transfers to the income and expenditure account for depreciation, impairment and disposal of donated assets	(42.9)	0.0	(42.9)	0.0	0.0
Other transfers between reserves	0.0	(8.8)	0.3	(2.5)	11.0
Movements on other reserves	0.5	(0.3)	0.0	0.5	0.3
Reserves at 31 March 2008	6,213.9	4,564.8	722.6	5.3	921.2

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.

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

	2007-08 (£ million)	Restated 2006-07 (£ million)
Total operating surplus	646.4	182.0
Depreciation and amortisation	535.6	352.5
Fixed asset impairments	136.1	161.4
Fixed asset reversal of impairments	(3.1)	0.0
Transfer from the donated asset reserve	(42.9)	(32.0)
Other movements	9.6	1.3
Increase in stocks	(10.8)	(2.5)
Decrease in debtors	105.3	83.1
Increase/(decrease) in creditors	435.8	(11.4)
Increase in provisions	14.2	25.1
Net cash inflow from operating activities before restructuring costs	1,826.2	759.5
Payments in respect of fundamental reorganisation/restructuring	(0.3)	(2.1)
Net cash inflow from operating activities	1,825.9	757.4

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.

## 20.2 Reconciliation of net cash inflow to movement in net funds

	2007-08 (£ million)	Restated 2006-07 (£ million)
Increase in cash in the year	900.4	379.9
Cash inflow from new debt	(56.3)	(91.3)
Cash outflow from debt repaid and finance lease capital payments	5.1	31.5
Cash outflow from increase in liquid resources	139.4	171.6
Change in net funds resulting from cash flows	988.6	491.7
Non-cash changes in debt	0.6	(23.0)
Change in net funds	989.2	468.7
Net funds at 1 April	845.9	249.3
Net funds at start of period for new NHS foundation trusts	219.7	127.9
Net funds at 31 March	2,054.8	845.9

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.

## 20.3 Analysis of changes in net debt

	Restated at 1 Apr 2007 (£ million)	At start of period for new FTs (£ million)	Cash changes in year (£ million)	Non-cash changes in year (£ million)	At 31 March 2008 (£ million)
Cash at commercial banks and in hand	164.5	0.8	91.3	0.0	256.6
Cash at Office of Paymaster General	602.5	216.9	817.4	0.0	1,636.8
Bank overdrafts	(0.4)	0.0	(8.3)	0.0	(8.7)
Debt due within one year	(16.2)	(0.8)	(1.8)	6.9	(11.9)
Debt due after one year	(104.1)	(2.3)	(43.2)	(6.8)	(156.4)
Finance leases	(28.4)	(1.6)	(6.2)	0.5	(35.7)
Current asset investments	228.0	6.7	139.4	0.0	374.1
Total net funds/(debt)	845.9	219.7	988.6	0.6	2,054.8

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.



# Notes to the accounts

## 21 Merger accounting adjustments

Prior period adjustments in the 2007-08 consolidated NHS foundation trusts accounts arise mainly from the acquisition of Good Hope NHS Trust by Heart of England NHS Foundation Trust but also include other prior period adjustments made by NHS foundation trusts in 2007-08 correcting, restating or reclassifying 2006-07 figures.

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 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 many figures throughout the accounts, of which explanations and details of the most significant are set out below.

### 21.1 Adjustments arising from the transfer of the activities of Bromley Community Learning Disabilities Team (CLDT) to Oxleas NHS Foundation Trust

The responsibilities of Bromley Community Learning Disabilities Team (CLDT) transferred to Oxleas NHS Foundation Trust on 1 November 2007, and the accounts of Oxleas NHS Foundation Trust have been presented as if the functions of the CLDT had always been part of Oxleas NHS Foundation Trust. The impact of this treatment on the 11-month accounts of Oxleas NHS Foundation Trust for 2006-07 is as follows:

The net assets of the CLDT when transferred were £ Nil. The CLDT's income from activities for the relevant 11-month period of 2006-07 was £1.1 million and its operating expenses for the relevant 11-month period of 2006-07 were £1.1 million.

### 21.2 Adjustments arising from the acquisition of Good Hope NHS Trust by Heart of England NHS Foundation Trust

Heart of England NHS Foundation Trust acquired the net assets of Good Hope NHS Trust on 8 April 2007 for nil consideration. However, as part of the legal agreement with the Secretary of State, Heart of England NHS Foundation Trust took on the liability to the taxpayer shown in Good Hope NHS Trust's balance sheet at the date of the merger. This outstanding liability represented the effective consideration in exchange for the net assets of Good Hope NHS Trust at the date of the transaction.

The net impact of this treatment on the 2006-07 consolidated accounts is as follows:

	Good Hope 2006-07 audited accounts (£ million)	Adjustments arising on merger* (£ million)	2006-07 merger adjustment to consolidated accounts (£ million)
<b>Income &amp; expenditure account</b>			
Income from activities	124.7	0.7	125.4
Other operating income	9.1	(1.5)	7.6
Operating expenses	(129.0)	(0.7)	(129.7)
Operating surplus	4.8	(1.5)	3.3
Profit/(loss) on disposal of fixed assets	(0.1)	0.0	(0.1)
Surplus before interest	4.7	(1.5)	3.2
Interest receivable	0.6	0.0	0.6
Other finance costs	(0.0)	0.0	0.0
Surplus for the financial year	5.3	(1.5)	3.8
PDC dividends payable	(3.6)	0.0	(3.6)
Retained surplus for the year	1.7	(1.5)	0.2
<b>Balance Sheet at 31 March 2007</b>			
<b>Fixed assets</b>			
Intangible assets	1.4	0.0	1.4
Tangible assets	99.2	(2.2)	97.0
Total fixed assets	100.6	(2.2)	98.4
<b>Current assets</b>			
Stocks and work in progress	1.6	0.0	1.6
Debtors	12.0	0.2	12.2
Investments	0.0	0.0	0.0
Cash at bank and in hand	0.3	0.0	0.3
Total current assets	13.9	0.2	14.1
Creditors: amounts falling due within one year	(4.9)	0.3	(4.6)
Net current assets	9.0	0.5	9.5
Total assets less current liabilities	109.6	(1.7)	107.9
Provisions for liabilities and charges	(6.8)	0.2	(6.6)
Total assets employed	102.8	(1.5)	101.3
Public Dividend Capital	79.0	0.0	79.0
Revaluation reserve	32.3	0.0	32.3
Donated asset reserve	1.2	0.0	1.2
Other reserves	(0.2)	0.0	(0.2)
Income and expenditure reserve	(9.5)	(1.5)	(11.0)
Total taxpayers' equity	102.8	(1.5)	101.3

## Notes to the accounts

	Good Hope 2006-07 audited accounts (£ million)	Adjustments arising on merger* (£ million)	2006-07 merger adjustment to consolidated accounts (£ million)
<b>Statement of total recognised gains and losses</b>			
Surplus/(deficit) for the financial year before dividend payments	5.3	(1.5)	3.8
Fixed asset impairment losses	(3.3)	0.0	(3.3)
Unrealised surplus on fixed asset revaluations/indexation	7.5	0.0	7.5
Increases in the donated asset reserve due to receipt of donated financed assets	0.2	0.0	0.2
Reductions in the donated asset reserve due to the depreciation, impairment and disposal of donated financed assets	0.0	(0.4)	(0.4)
<b>Total recognised gains and losses for the financial year</b>	<b>9.7</b>	<b>(1.9)</b>	<b>7.8</b>
<b>Cash flow statement</b>			
Net cash inflow from operating activities	12.1	0.0	12.1
Interest received	0.6	0.0	0.6
Payments to acquire tangible fixed assets	(4.2)	0.0	(4.2)
Payments to acquire intangible fixed assets	(0.1)	0.0	(0.1)
Dividends paid	(3.6)	0.0	(3.6)
Purchase of current asset investments	(186.9)	0.0	(186.9)
Sale of current asset investments	186.9	0.0	186.9
PDC received	0.0	0.0	0.0
PDC repaid (not previously accrued)	(4.9)	0.0	(4.9)
Other capital receipts	(0.1)	0.0	0.1
<b>Increase in cash</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\*The adjustments arising on merger appeared in the 2007-08 audited accounts of Heart of England NHS Foundation Trust. The accounts of Heart of England NHS Foundation Trust also include further details of the accounting treatment.

## 22 Prior period adjustments

Prior period adjustments in the 2007-08 consolidated NHS foundation trusts' accounts arise mainly from NHS foundation trusts in correcting, restating or reclassifying 2006-07 figures.

The prior period adjustments disclosed by NHS foundation trusts are as follows:

### Basingstoke & North Hampshire NHS Foundation Trust

Due to changes in accounting policy, digital hearing aids previously capitalised, with a carrying value of £0.5 million, have been removed from fixed assets and £0.2 million of holiday pay, due to staff at 31 March 2007, has been accrued for in 2006-07. As a consequence of these changes, the 2007-08 opening income and expenditure reserve has been reduced by £0.7 million.

### Lancashire Teaching Hospitals NHS Foundation Trust

Due to a change in accounting policy, digital hearing aids previously capitalised, with a carrying value of £1.2 million, have been removed from fixed assets with a corresponding reduction in the 2007-08 opening income and expenditure reserve. In addition, assets with a carrying value of £1.2 million, donated by the New Opportunities fund, have been transferred from the donated asset reserve to deferred income, £1 million, and the revaluation reserve, £0.2 million.

### Royal National Hospital for Rheumatic Diseases NHS Foundation Trust

Errors in the 2006-07 accounts have resulted in the following restatements:

- decrease in income of £0.1 million; and
- increase in operating expenses of £0.5 million.

As a consequence of correcting these errors, the 2007-08 opening income and expenditure reserve has been reduced by £0.6 million.

### Salisbury NHS Foundation Trust

Errors in the 2006-07 accounts have resulted in the following restatement:

- write off of fixed assets of £2.5 million.

As a consequence of correcting this error, the 2007-08 opening income and expenditure reserve has been reduced by £2.8 million, while the revaluation reserve has increased by £0.3 million.

### Sherwood Forest NHS Hospitals Foundation Trust

Errors in the 2006-07 accounts have resulted in the following restatement:

- decrease in the carrying value of fixed assets of £0.3 million.

As a consequence of correcting this error, the 2007-08 opening income and expenditure reserve has been decreased by the same amount.

### Yeovil District Hospital NHS Foundation Trust

Negative asset balances in the revaluation reserve have been eliminated by transferring a £6.6 million credit from the 2007-08 opening income and expenditure reserve to the revaluation reserve. This should have been done when Yeovil District Hospital NHS Foundation Trust was first authorised in 2006-07.

# Notes to the accounts

## 23 Contractual capital commitments

NHS foundation trusts had entered into £204.9 million of capital commitments at 31 March 2008 (31 March 2007: £167.8m).

## 24 Post balance sheet events

As at 31 March 2008 there were 89 NHS foundation trusts. A further 18 NHS trusts or mental health NHS trusts have been authorised since the year end:

	<b>Authorised</b>
Medway NHS Foundation Trust	01 April 2008
Mid Cheshire Hospitals NHS Foundation Trust	01 April 2008
Oxfordshire and Buckinghamshire Mental Health NHS Foundation Trust	01 April 2008
Colchester Hospital University NHS Foundation Trust	01 May 2008
Norfolk and Norwich University Hospitals NHS Foundation Trust	01 May 2008
Somerset Partnership NHS Foundation Trust	01 May 2008
Surrey and Borders Partnership NHS Foundation Trust	01 May 2008
Cambridgeshire and Peterborough NHS Foundation Trust	01 June 2008
North East London NHS Foundation Trust	01 June 2008
University Hospitals Bristol NHS Foundation Trust	01 June 2008
Birmingham and Solihull Mental Health NHS Foundation Trust	01 July 2008
Pennine Care NHS Foundation Trust	01 July 2008
Sheffield Health and Social Care NHS Foundation Trust	01 July 2008
Tees, Esk and Wear Valleys NHS Foundation Trust	01 July 2008
Alder Hey Children's NHS Foundation Trust	01 August 2008
Sussex Partnership NHS Foundation Trust	01 August 2008
The Dudley Group of Hospitals NHS Foundation Trust	01 October 2008
Royal Bolton Hospital NHS Foundation Trust	01 October 2008

The following post balance sheet events also require disclosure.

### Berkshire Healthcare NHS Foundation Trust

As part of the revaluation exercise of the trust's property assets for the transition to IFRS, the District Valuer identified that a particular asset was overvalued by £1.2 million due to an error by an external expert in valuing the assets of a predecessor organisation. This error will be corrected as a prior period adjustment through the revaluation reserve in the 2008-09 accounts.

### Country Durham and Darlington NHS Foundation Trust

The trust is currently consulting on major changes to the services it provides at Bishop Auckland General Hospital, University Hospital of North Durham and Darlington Memorial Hospital. The consultation ends on 12 January 2009.

#### [Guy's and St Thomas' NHS Foundation Trust](#)

The trust has established two subsidiaries in relation to a joint venture with Serco to provide pathology services.

#### [Hertfordshire Partnership NHS Foundation Trust](#)

This foundation trust has won a tender to manage the Specialist Learning Disability Services in Norfolk, which is equivalent to an additional £7.0 million annual income from 1 April 2008.

#### [Royal National Hospital for Rheumatic Diseases NHS Foundation Trust](#)

The trust informed Monitor of serious failings in its financial controls resulting in financial under performance. Monitor's Board decided that these failings amounted to a significant breach of the foundation trust's Terms of Authorisation. Accordingly, on 4 August 2008 Monitor issued a statutory notice under Monitor's intervention powers under section 52 of the National Health Service Act 2006. The statutory notice formally requires the foundation trust to undertake specific actions, and is published on Monitor's website [www.monitor-nhsft.gov.uk/register/RNHRD\\_52Notice.pdf](http://www.monitor-nhsft.gov.uk/register/RNHRD_52Notice.pdf)

#### [Wirral University Teaching Hospital NHS Foundation Trust](#)

The local National Programme for IT provider, Fujitsu, has withdrawn from a contract with this foundation trust which puts £2.6 million of capitalised intangible fixed assets at risk, in respect of Cerner Millennium patient information systems implementation costs.

#### [Central and North West London NHS Foundation Trust](#)

As at 10 October 2008, the trust has £1 million of cash deposits held at Kaupthing Singer & Friedlander bank which may or may not be recoverable.

#### [The Christie NHS Foundation Trust](#)

As at 10 October 2008, the trust has £1 million of cash deposits held at Kaupthing Singer & Friedlander bank which may or may not be recoverable.

#### [Authorisation date for issue](#)

FRS 21 requires Monitor to disclose the date of authorisation of the accounts. The authorised date for issue is 24 October 2008.

### **25 Contingent assets and liabilities**

At 31 March 2008 the net value of contingent liabilities (after allowing for recoverable amounts) was £17.2 million (2006-07: £10.4 million), while the net value of contingent assets was £0.1 million (2006-07: £ nil)

Contingent liabilities do not include those potentially arising from cases of clinical litigation which are accounted for by the NHS Litigation Authority, see Note 16.

# Notes to the accounts

## 26 Losses and special payments

In the year there were 21,007 (2006-07: 17,640) cases of loss with a total value of £9.2 million (2006-07: £13.5 million) and 2,577 (2006-07: 1,693) cases of special payments with a total value of £4.8 million (2006-07: £3.7 million).

There were no individual cases of losses or special payments in excess of £100,000 (2006-07: one).

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 NHS foundation trusts' bank accounts at 31 March 2008 was £7.1 million (31 March 2007: £1.4 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. 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.

## 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 (FRS) 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.

## 29.1 For PFI schemes deemed to be on balance sheet

	2007-08 (£ million)	2006-07 (£ million)
<b>Charges</b>		
Gross charge to operating expenses in respect of the service element of on-balance sheet PFIs	14.2	7.5
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	14.2	7.5

	2007-08 (£ million)	2006-07 (£ million)
<b>Commitments</b>		
2nd to 5th years (inclusive)	2.2	0.0
6th to 10th years (inclusive)	0.0	2.1
21st to 25th years (inclusive)	0.2	0.0
26th to 30th years (inclusive)	11.2	10.6
36th year and beyond	0.5	0.5

## 29.2 For 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 2007-08, the future annual revenue charges anticipated and the associated capital value excluded from the individual NHS foundation trusts' balance sheets are:

	2007-08 (£ million)	2006-07 (£ million)
<b>Charges</b>		
Gross charge to operating expenses in respect of off-balance sheet PFI transactions	208.5	n/a*
Amortisation of PFI deferred assets	(1.8)	n/a*
Net charge to operating expenses in respect of off-balance sheet PFI transactions	206.7	109.7

	2007-08 (£ million)	2006-07 (£ million)
<b>Commitments</b>		
Within one year	0.5	0.0
2nd to 5th years (inclusive)	4.4	2.6
6th to 10th years (inclusive)	10.2	10.1
11th year and beyond		207.1
11th to 15th years (inclusive)	3.6	n/a*
16th to 20th years (inclusive)	30.5	n/a*
21st to 25th years (inclusive)	31.2	n/a*
26th to 30th years (inclusive)	54.4	n/a*
31st to 35th years (inclusive)	83.6	n/a*
36th year and beyond	33.6	n/a*

\*Prior year comparatives are not available as this is the first year of adoption of this disclosure.

	2007-08 (£ million)	2006-07 (£ million)
<b>Capital value</b>		
Estimated total capital value of projects	2,481.5	2,469.1



# Notes to the accounts

## 30 Financial instruments

The NHS foundation trust consolidated account includes the accounts of 89 underlying NHS foundation trusts. It is within the underlying accounts of these 89 bodies that detailed FRS 29 disclosures have been made.

FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosures require 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 apply. 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.

The following paragraphs provide an overview of the major financial risks for NHS foundation trusts and how they are managed at the individual level.

### 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 trusts' 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 trusts 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.

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