Annual Report and Accounts

2007-2008

Monitor

Independent Regulator
of NHS Foundation Trusts

Monitor – Independent Regulator of NHS Foundation Trusts

Annual report and accounts

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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 and 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 timely, effective action is taken to prevent and remedy breaches of the terms of authorisation;
- Continue to operate a rigorous assessment process that generates NHS foundation trusts which are legally constituted, well governed and financially strong;
- Contribute to and influence the development of a devolved healthcare system that incentivises 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.

Contents

Foreword from the Executive Chairman, William Moyes 4

About NHS foundation trusts 8

Monitor's roles and responsibilities 10

Rigorous assessment 14

Case Study – Assessment driving improvement: how applying for foundation trust status led to better governance for Medway NHS Foundation Trust 18

Proportionate regulation 24

Case Study – Early warning, cooperation and decisive action: Peterborough and Stamford Hospitals NHS Foundation Trust 32

Developing a devolved system 36

Case Study – Learning from experience: governors talk about the value of communicating with each other 40

Clear and effective communications 44

Monitor's publications in 2007-08 46

A high-performing organisation 48

Case Study – Career progression at Monitor 51

Looking forward 54

Monitor's annual planning cycle 58

Management commentary 60

- The Board 60
- The Senior Management Team 62
- Management report 64
- Financial position 65
- Governance disclosure 66

Remuneration report 74

Statement of Accounting Officer's responsibilities 77

Statement on internal control 78

The Certificate of the Comptroller and Auditor General to the Houses of Parliament 81

Accounts and notes 83

Foreword from the Executive Chairman, William Moyes

William Moyes,
Executive Chairman

The last twelve months have been an extremely successful year for Monitor. We have continued to develop an effective assessment and compliance system, able to deal with the range of problems that can be thrown up by a complex hospital system. And we have completed the creation of the systems and processes required to regulate the 200-250 or more organisations that will exist when all care, apart from the GP service, can potentially be delivered by foundation trusts. But there have also been disappointments.

The assessment and authorisation process has driven huge changes in the hospital sector. We are constantly told – even by those who are not successful at the first attempt to be authorised – how much applicants learn about their organisations, and how transformational the process is.

Monitor's focus on good governance and financial viability drives two main changes. First, the appointment of stronger boards, with a wider range of skills and experience, a clearer understanding of their role and responsibilities and, perhaps, greater confidence to lead the organisation. Second, a greater understanding by the board and senior managers of the risks the organisation faces, and better plans to tackle them.

Many hospitals have assumed that ways would be found to support them if they get themselves into difficulties they cannot manage. And too often in the past this has proved to be the case. But there is now a different attitude. Commissioning is just starting to create the ability to drive changes in services for the benefits of patients. Lord Darzi and Sir Bruce Keogh will set a tough agenda for service and clinical improvement, to which hospitals must respond. And there is now a general acceptance that sound finances are essential for change and service improvement. The process of becoming a foundation trust strengthens the ability of organisations to understand these pressures and tackle them effectively.

So, it is disappointing that the rate of referral of applicants to Monitor remains erratic and fewer are being authorised at the first attempt.

With the support of the Department of Health we have built the capacity to assess more applicants each year. However, at the present rate of progress the task will not be completed for 3-4 years. This raises the question whether a new and better approach is required to prepare applicants more thoroughly. Over the last four years the evidence has mounted from the Healthcare Commission and elsewhere that in general foundation trusts perform to a higher standard. There are real benefits for patients in accelerating the programme of authorisation. I hope this will happen in the year ahead.

Monitor's compliance system has continued to develop. Initially the problems of foundation trusts appeared to be financial, and we therefore made that the focus of our compliance effort. As the financial stability and strength of the sector has grown (foundation trust margins have grown from around 4.7% to 8% in the last four years) increasingly the issues are different kinds of service failures – breaches of national waiting time targets and more recently failures to secure sustained reductions in the rate of MRSA infections. Specific cases and the action taken by Monitor are detailed in the body of this report.

Our experience is that failures of this kind are often the symptom of a deeper governance problem. Monitor's focus, therefore, is on tackling the root cause, rather than a quick fix to sort the immediate problem.

We use our formal powers of intervention sparingly, preferring to work with the boards of foundation trusts to understand and remedy the underlying problem and leave the board and senior management of the trust stronger and more able to manage their organisations effectively in the future. This is the approach we have adopted in a wide range of cases over the last year. However, in four cases during 2007-08, all related to MRSA infection rates, we determined that the foundation trusts were in significant breach of their authorisation. We have made clear to the trusts concerned that we would be prepared to use our formal powers to intervene if they continue in 2008-09 to fail to meet their contractual obligations. We hope that will not prove necessary.

Looking forward, our compliance system will have to develop further as the English healthcare system evolves. Increasingly targets will be set locally by commissioners and delivery should be monitored through contract management processes. Monitor is seeking to work more closely with primary care trusts to avoid duplication and to ensure roles and responsibilities are properly delineated.

On issues of clinical quality and potential service failure, we have built an increasingly close and productive working relationship with the Healthcare Commission. We look forward to developing good working relationships with the Care Quality Commission and to overcoming together the potential obstacles inherent in the Health and Social Care Bill.

Monitor has always said that the board of a foundation trust carries the main responsibility for regulating its performance, and that remains our view. What has gradually become apparent is the scale of the development programme required to ensure a high degree of effective self-regulation. The programme for finance directors which Monitor devised and is delivering with Cass Business School is proving popular and effective. In the coming year we plan to build on this by developing a programme for chairs and non-executive directors designed to ensure they understand their responsibilities and have the tools to discharge them effectively.

Building on work in 2007-08, we are planning to offer guidance to governors in the discharge of their key responsibilities. The role of governors is new and in many ways unproven. But there can be no doubt of the importance of local accountability in a tax-funded system where hospital services are delivered by autonomous providers. The experience of the last four years suggests that governors retain their enthusiasm and are increasingly valued by boards as a source of feedback from patients, staff and the public, as well as influential supporters. It is, however, important that their role in calling boards to account is not lost sight of, and that it is done rigorously.

We will also be driving forward our programme of work on service-line management. This has proved hugely successful in the last year. Initially we chose to focus on helping clinicians and managers understand the economics of each of the services delivered by a foundation trust. For the first time this has enabled clinicians to understand where services were being delivered at a loss and how that could be rectified.

Clinicians have seized the chance to take charge of the management of services, and increasingly responsibility is being devolved to them with real benefits to patients. Going forward we plan to extend this approach to other key aspects of managing services. Our aim is that for every service, clinicians, and the board, will understand the economics, whether clinical outcomes are acceptable, whether the patients' experience of the service is good or bad and how the staff feel. In this way, the performance of a hospital will be understood at the level where change can be better achieved, and the goal of clinical engagement will be better achieved. It is perhaps one of the most fundamental changes happening in the hospital system.

The debate about the future form of regulation in the health and social care sectors was resolved, at least for the time being, in 2007 with the decision to create the Care Quality Commission and to retain Monitor as the independent regulator of foundation trusts. It was disappointing that the Government did not use the passage of legislation in 2007 to honour its repeated commitment to reconstitute Monitor as a fully-independent body in line with other regulators. This is something for which we will continue to press.

The focus of policy development is now on how the healthcare system might be managed in the future and how patient choice and competition can best be harnessed to secure high quality, cost-effective services. In 2007-08 we saw the first acquisitions by NHS foundation trusts. In April, Heart of England NHS Foundation Trust acquired Good Hope Hospitals NHS Trust. This was followed by the acquisition of mental health and learning disability services from Shropshire County Primary Care Trust by South Staffordshire NHS Foundation Trust.

Within the next year we expect to see foundation trusts evaluating the opportunities to deliver community and primary care services. Managing competition and resolving failure are areas where Monitor has a key role to play in partnership with the Department of Health, the Cooperation and Competition Panel, when it is established, and the Strategic Health Authorities. Getting roles, responsibilities and systems right will be a key issue for 2008-09.

Taken together, the impact of competition and patient choice, the pressure for change likely to be generated by the work of Lord Darzi and by the publication of more and better data on clinical performance, and the pressures on foundation trusts to improve efficiency may present some difficult choices about the future shape of the hospital system. Monitor will have a key role to play in ensuring that foundation trusts maintain service quality and financial viability through periods of significant change.

In the coming year we will authorise the 100th foundation trust and the point will be reached where more than half the hospital sector are foundation trusts. We hope that 2008 will be the year when foundation trust status comes to be regarded by hospital boards as essential to demonstrate to clinicians, patients and the public that the hospital is a well-run organisation with ambition. We look forward to contributing to that outcome.

Dr William Moyes
Executive Chairman

About NHS foundation trusts

In 2007-08 the number of NHS foundation trusts increased from 59 to 89. By July 2008, a total of 103 foundation trusts had been authorised, 45 per cent of the total number of acute and mental health trusts.

NHS foundation trusts are at the forefront of the move towards a more devolved NHS that is better able to respond to the needs of patients and local people. While they remain public institutions, NHS foundation trusts are free from central government control. They set their own strategies and make their own decisions to improve services for patients, within the framework of their contracts with commissioners. They can borrow commercially, retain surpluses and invest to meet local needs.

With these freedoms come important responsibilities. Boards of NHS foundation trusts are ultimately responsible for the success or failure of their organisation; there is no safety net. This is an important cultural shift and an entirely new way of working. It fosters improved leadership, better financial management and innovation, all of which lead to improved health services for patients.

There are new accountabilities for NHS foundation trusts too. They are accountable to their patients, staff and local people through their members and boards of governors. They are accountable to their commissioners through legally binding contracts. And they are accountable to Monitor, the Independent Regulator of NHS Foundation Trusts, through their compliance with the terms of their authorisation, which detail the conditions under which they operate.

Key to map

Authorised 1 April 2004

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

Authorised 1 July 2004

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

Authorised 1 January 2005

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

Authorised 5 January 2005

25. Gateshead Health

Authorised 1 April 2005

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

Authorised 1 June 2005

32. Rotherham

Authorised 1 May 2006

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

Authorised 1 June 2006

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

Authorised 1 August 2006

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

Authorised 1 October 2006

49. Chelsea and Westminster Hospital

Authorised 1 November 2006

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

Authorised 1 December 2006

53. Basingstoke and North Hampshire
54. King's College Hospital

Authorised 1 February 2007

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

Authorised 1 March 2007

59. South Devon Healthcare

Authorised 1 April 2007

60. Christie Hospital
61. Dorset Healthcare
62. York Hospitals

Authorised 1 May 2007

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

Authorised 1 June 2007

66 Dorset County Hospital
67 Heatherwood and Wexham Park Hospitals

Authorised 1 July 2007

68 Cheshire and Wirral Partnership
69 Wirral University Teaching Hospital
70 [2]gether (formerly Gloucestershire Partnership)

Authorised 1 August 2007

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

Authorised 1 October 2007

74 Cumbria Partnership
75 Lincolnshire Partnership
76 Milton Keynes
77 North Essex Mental Health Partnership

Authorised 1 November 2007

78 East London
79 Poole Hospital

Authorised 1 December 2007

80 Blackpool Fylde and Wyre Hospitals
81 Lancashire Care
82 North Tees and Hartlepool
83 Taunton and Somerset

Authorised 1 February 2008

84 Birmingham Women's
85 Greater Manchester West
86 Mid Staffordshire
87 Norfolk and Waveney
88 Tameside Hospital

Authorised 1 March 2008

89 Camden and Islington

Authorised 1 April 2008

90 Medway
91 Mid Cheshire Hospitals
92 Oxfordshire and Buckinghamshire Mental Health

Authorised 1 May 2008

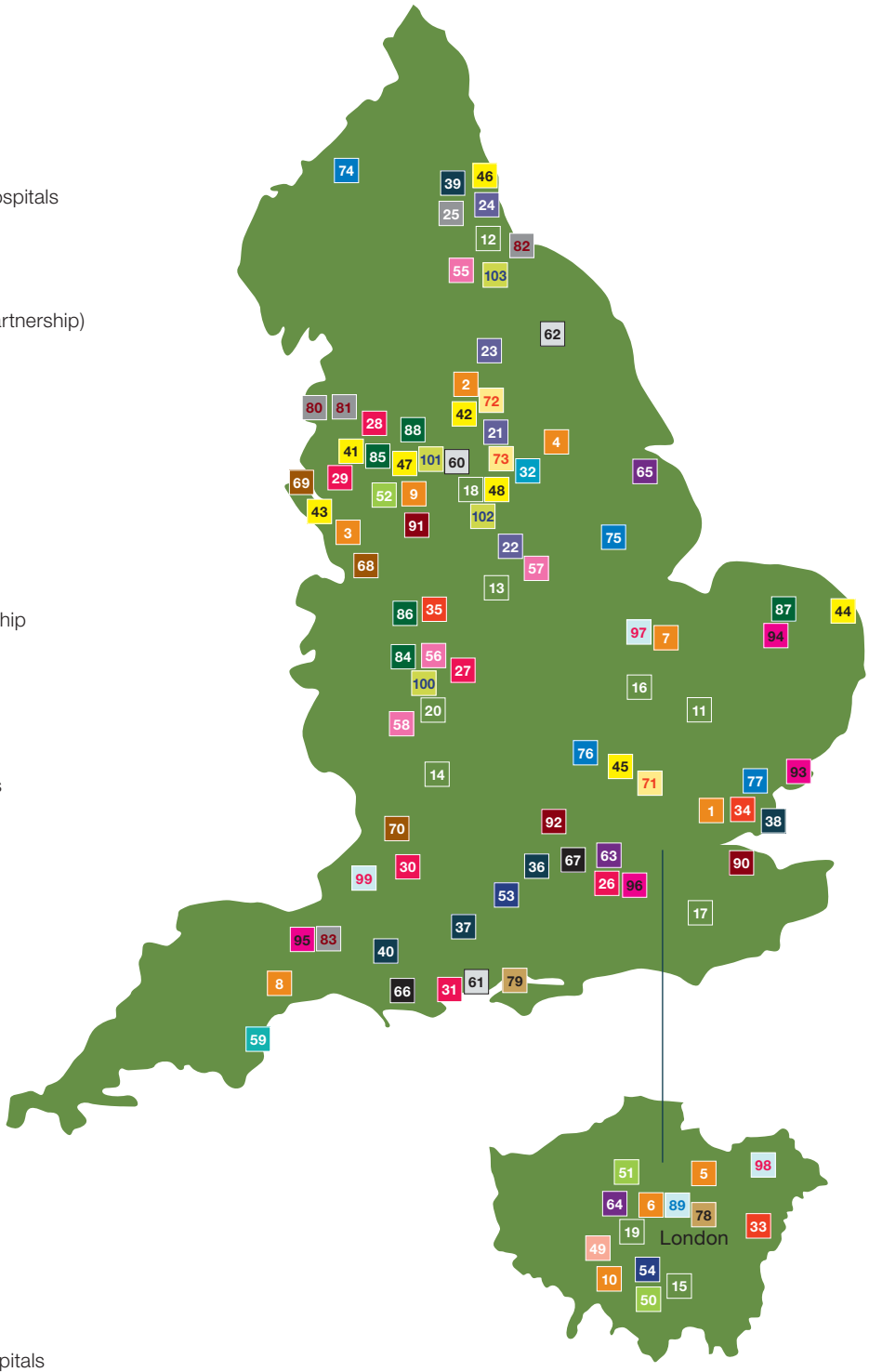
93 Colchester Hospital University
94 Norfolk and Norwich University Hospitals
95 Somerset Partnership
96 Surrey and Borders Partnership

Authorised 1 June 2008

97 Cambridgeshire and Peterborough
98 North East London
99 University Hospitals Bristol

Authorised 1 July 2008

100 Birmingham and Solihull Mental Health
101 Pennine Care
102 Sheffield Health & Social Care
103 Tees, Esk and Wear Valleys



Monitor's roles and responsibilities

Monitor is the independent regulator of NHS foundation trusts. Behind everything we do is the determination to see that patients get high quality care.

Our regulatory framework provides for rigorous assessment of applicant NHS trusts and a proportionate risk-based approach to ensuring that, once authorised, NHS foundation trusts meet their obligations. Monitor is also responsible for the financial regime within which NHS foundation trusts operate, including the audit and reporting arrangements. To ensure the effectiveness of our regulatory framework we also contribute to the wider development of the healthcare system and to the building of NHS foundation trust capabilities.

Rigorous assessment

The process Monitor has put in place for assessing applicants for NHS foundation trust status is necessarily robust: NHS foundation trusts gain significant additional freedoms and responsibilities, and they are authorised as NHS foundation trusts on a permanent basis. The legislation under which Monitor operates leaves it to Monitor to specify the criteria governing authorisation. Monitor has focused on three questions:

1. **Is the trust legally constituted?**
   Does the trust's constitution comply with the legal requirements and what steps has the trust taken to secure a representative membership?

2. **Is the trust financially viable and sustainable?**
   Is there evidence to support this in the trust's short-term working capital review and their five-year business plan?

3. **Is the trust well governed?**
   Does the board have an appropriate set of skills and is its strategy and business plan comprehensive and realistic?

Our assessment process is also used to consider the implications of major investments, acquisitions or mergers proposed by an NHS foundation trust. In the case of a proposed merger involving an NHS foundation trust, Monitor has a statutory role in approving, rejecting or deferring the merger proposal. In the case of acquisitions and major investments, we will consider risk ratings. This indicates to the board of the NHS foundation trust the risks the transaction poses to its financial stability, governance and ability to deliver its mandatory services. The board of the NHS foundation trust will take these risk ratings into account in deciding whether to proceed with the transaction.

Proportionate regulation

Monitor's *Compliance Framework* ensures that NHS foundation trusts meet the requirements set out in their Terms of Authorisation, but also have the freedom they need to innovate and respond to local needs and wishes.

All NHS foundation trusts prepare an annual plan and have to make quarterly submissions to us. We use these to prepare risk ratings, annually and quarterly, for each NHS foundation trust covering:

1. **Finance:** based on achievement of financial plan, underlying financial performance, financial efficiency and liquidity.
2. **Governance:** based on:
   - structures (constitution, representative membership, appropriate board roles and structures);
   - performance (national standards and targets, systems to improve quality and manage risk and performance); and
   - cooperation with NHS bodies and local authorities.
3. **Mandatory services:** the provision of those services required in the Terms of Authorisation (the services NHS commissioners wish to purchase from the NHS foundation trust).

We maintain a risk-based approach to regulation ensuring our actions and requirements are timely, focused and proportionate. Successful and well governed NHS foundation trusts will only be required to provide limited information and have infrequent contact with Monitor. However, where major financial or service problems arise, we will act swiftly to identify the underlying causes of the problem and ensure these are being addressed. Where possible, we work closely with a trust, reviewing action plans

and assessing their implementation, but if a trust is not dealing appropriately with its problems, we will intervene rapidly to ensure patients and services are safeguarded. We can also intervene to correct failures to meet national targets or clinical standards, for example, to secure implementation of recommendations from the Healthcare Commission if it found evidence of poor performance.

Under their Terms of Authorisation trusts are not allowed to increase the proportion of revenue they earn from treating private patients beyond the level set by law. Their Terms of Authorisation also require them to continue to provide a set of specified mandatory services (we classify mandatory services as all services provided under contract to a primary care trust) and prevents the disposal of any assets required to deliver these mandatory services. We also limit the total borrowing of an NHS foundation trust under the Prudential Borrowing Code to ensure capital investments are affordable.

Information and assurance

NHS foundation trusts follow the *Audit Code for NHS Foundation Trusts* and the *NHS Foundation Trust Financial Reporting Manual* produced by Monitor. This ensures that NHS foundation trusts' accounts are produced in line with accountancy best practice in the UK providing a better reflection of actual performance. NHS foundation trusts are also required to provide data to the Department of Health and other health bodies under Schedule 6 of their Terms of Authorisation. Monitor has sought to limit the burden of data collection. We publish performance data quarterly on individual NHS foundation trusts and the sector as a whole and, by law, we are required annually to present consolidated accounts for the NHS foundation trust sector to Parliament.

Developing a devolved healthcare system

NHS foundation trusts represent a significant step towards a devolved healthcare system, offering much greater freedom to tailor services to local needs and new governance arrangements to provide accountability to patients, staff and local communities. Monitor plays an important role in this devolved system. We have focused our attention on supporting the development of NHS foundation trust board capabilities so that the boards themselves make the most of NHS foundation trust status. We have produced good practice guides on a range of issues including governance and major investments. We have also initiated development programmes, promoting strong financial management and effective clinical engagement.

How Monitor works

We are, deliberately, a small organisation. We aim to attract highly professional people with a view to being efficient and delivering the highest possible standards.

As a regulator, we are open, transparent and proportionate. We follow clear published frameworks for our assessment and compliance activities and publish regular reports on the NHS foundation trust sector. Monitor's Board minutes are published on our website.

Our independence is essential to the effective discharge of our statutory functions. But we also need to work in partnerships to take advantage of distinctive skills, build common agendas and avoid duplication. We have worked particularly closely with the Healthcare Commission on clinical and service performance and with the NHS Institute for Innovation and Improvement on training and development.

Monitor's annual planning cycle

This *Annual Report and Accounts* sets out Monitor's performance over the last financial year and provides a summary of our annual accounts. This document is a vital part of our annual planning and reporting cycle, along with the publication of *NHS Foundation Trusts Review and Consolidated Accounts* in the autumn, which sets out the performance of NHS foundation trusts to date, along with their consolidated accounts. Monitor's *Business Plan* is published in April. The *Business Plan* refines our overall goals and sets our detailed agenda for the coming year. For a timeline and more information about Monitor's annual planning cycle, turn to page 58.

> We maintain a risk-based approach to regulation ensuring our actions are timely, focused and proportionate.”

Rigorous assessment

Monitor's assessment process is tough: one in three trusts fail to meet our standards at the first attempt. However, our experience tells us that the process of applying is beneficial to trusts, encouraging them to scrutinise and improve their organisations.

To become an NHS foundation trust, an organisation must demonstrate that all the elements are in place to deliver the best possible patient care. As well as ensuring that applicant trusts are financially strong and meet national standards and targets, Monitor's assessment process examines governance arrangements. We ensure that foundation trust boards can understand and manage risk and have a sound basis on which to make strategic decisions.

NHS foundation trusts authorised in 2007-08

In 2007-08 Monitor carried out 45 assessments, leading to the authorisation of 30 NHS foundation trusts, bringing the total on 31 March 2008 to 89. These authorisations include one trust previously deferred by Monitor, and six trusts who had previously postponed their assessments. Since 31 March a further 14 foundation trusts have been authorised, bringing the total, by 1 July, to 103.

In 2007-08 we deferred a decision on seven applications and seven trusts postponed their assessments. One trust was rejected and one trust withdrew its application.

In addition, we completed two assessments of major transactions – the acquisitions mentioned on page 17.

A trust's experience of the assessment process

Baroness Molly Meacher, Chair of the East London NHS Foundation Trust, which was authorised in November 2007, told the House of Lords in a debate about healthcare regulation:

"The trust that I chair has saved about £15 million in efficiency savings during the past two years, simply because we had to become efficient. Monitor demanded that. The degree of waste in the preceding era was absolutely breathtaking. Now the trust is on a firm financial footing and is investing many millions of pounds in completely new and improved services… [Monitor] has proved remarkably effective in raising standards. It was quite painful to meet its requirements."

Lessons learnt from assessment

The pass rate for authorisations at the first attempt for 2007-08 was 61%, a fall from 65% in 2006-07, indicating that there is still much to be done to establish all NHS providers as foundation trusts. We have not 'raised the bar' for authorisation, however, we have maintained the rigorous standards required of applicants since our first assessments.

An increasing number of deferred or postponed applications are due to clinical governance failings or concerns over governance arrangements on clinical issues.

In other cases, there have been concerns that new board members have not had sufficient time to acclimatise themselves to their new role; this may impact on the quality of the board as a whole.

Some postponements resulted from the need to wait for the outcome of independent reviews on clinical quality issues such as the Healthcare Commission's Dignity in Care review.

The NHS Next Stage review is also having an impact. Applicant trusts and commissioners anticipate that the review's recommendations will affect services commissioned by PCTs. This uncertainty has meant that some trusts have not been able to show how they plan to mitigate the risks of changes in the activity assumptions contained in their business plans for foundation trust authorisation. This has led to some postponements to consider how the applicant may adapt.

Other reasons for deferred, postponed or unsuccessful applications include:

- concerns about board capacity;
- local health economy issues including deficits in the system;
- changes to national research and development funding;
- concerns over the affordability of PFI projects; and
- failure to demonstrate effective financial reporting to, and oversight by, the board.

"The trust that I chair has saved about £15 million in efficiency savings during the past two years, simply because we had to become efficient. Monitor demanded that."

Baroness Molly Meacher

Assessing new forms of foundation trusts

The first mental health foundation trusts were authorised in 2006, and are now a well established and rapidly expanding sector. Sixteen new mental health foundation trusts were authorised in 2007-8, bringing the total, by 31 March, to 21.

A feasibility study this year on extending the foundation trust model to ambulance trusts concluded that ambulance trusts could become viable foundation trusts. The study identified some issues to be addressed before we expect to authorise ambulance NHS foundation trusts. These include the need to secure a representational membership, which may prove more challenging for ambulance trusts.

Work is in hand to test the concept of applications for foundation trust status from providers of community services. The Department of Health is working with six pilot projects. In these areas, separate bodies are being developed for the provision of community services, allowing them to become stand-alone organisations which could potentially apply for foundation trust status. We would hope to see the first assessments beginning in 2009-10, with the first authorisations possibly late 2009.

Mergers, acquisitions and guidance

The acquisition of Good Hope Hospitals NHS Trust by Heart of England NHS Foundation Trust, detailed in last year's annual report, was finalised in April 2007.

The acquisition of the mental health and learning disability services of Shropshire County PCT by South Staffordshire NHS Foundation Trust was completed in June 2007, with the NHS foundation trust changing its name to South Staffordshire and Shropshire Healthcare NHS Foundation Trust.

In June 2007, Monitor and the Department of Health published *Roles and Responsibilities in the Approval of NHS Foundation Trust PFI Schemes*, a framework for the review and approval of private finance initiative (PFI) schemes for NHS foundation trusts.

Scaling up of assessment – a look ahead

Monitor has now authorised the 100th foundation trust, and by the end of 2008 we expect that half of all acute and mental health care will be provided by foundation trusts. However, the number of foundation trusts is not increasing as quickly as we would like.

To give more applicant trusts the opportunity to become foundation trusts we will expand our assessment capacity so that we can assess six applicants for foundation trust status a month from 1 April 2008. Depending on the number of applications, we may expand further during 2008-09. However, we continue to have concerns about the quality and preparedness of organisations coming into our assessment process.

An increase in capacity will not mean lowering the bar on quality. We hope to see the level of authorisations increase this year, but we recognise that there are challenges which may affect the pass rate. These include:

- uncertainty over commissioning intentions;
- more applicants who are starting from a challenging position financially;
- a revision of tariffs creating greater volatility in income;
- new contracts, with penalties for not meeting targets and standards; and
- the Department of Health's requirement that no applicant will be referred to Monitor unless it is meeting targets on tackling MRSA and *C. difficile*.

To improve the efficiency of the assessment process, Monitor introduced a new method of identifying issues that have caused postponements or deferrals in the past, enabling us to address these earlier in an assessment. As a result, we have been able to more effectively timetable assessments to allow potential problems to be dealt with appropriately.

We will be working with the Department of Health to address all of these challenges.

Case study

Assessment driving improvement: how applying for foundation trust status led to better governance for Medway NHS Foundation Trust

When Medway NHS Foundation Trust applied for NHS foundation trust status in October 2007, Monitor's Board deferred a decision on the application. But action taken as a result of Monitor's concerns led to a stronger organisation and a successful authorisation.

One of the reasons for the deferral was that the trust had a high standardised mortality ratio (SMR) – the rate of deaths relative to the national average. Monitor was not convinced that the trust board understood the reasons for the high rates or had clear action plans in place to address them. An audit had been carried out on the trust's mortality data but we were concerned that the trust had not commissioned an independent review of the conclusions of the audit.

We also had concerns about the level and effectiveness of independent non-executive input to the trust's Governance and Risk Committee. Although membership of the committee included two of the trust's non-executive directors it was chaired by the trust's medical director.

The trust carried out a systematic review in response to our concerns. External reviews commissioned by the trust's medical director included:

- A visit from senior clinicians and experts from Walsall Hospitals NHS Trust with experience of understanding and addressing high mortality rates. They focused on coding practices which had been an issue at Walsall and found similar issues at Medway.
- A visit from senior clinicians and experts from Luton and Dunstable NHS Foundation Trust – whose Chief Executive champions the role of the board in understanding mortality rates. This included a review of a sample of case notes examined in the medical director's own review.
- A visit from the NHS Institute for Innovation and Improvement, which subsequently prepared a report and recommendations.
- A clinical coding review by an independent provider of healthcare intelligence and quality improvement services.

These reviews identified a range of internal issues, such as medicine management, training and inaccurate coding, and external factors such as Medway's healthcare environment and how it influenced the rate of deaths at the trust.

Action plans were developed to address a number of areas including quality of coding, clinical procedures and initiatives with health community partners.

The length of time older people were staying in hospital when they should have been discharged was identified as a pertinent issue for the trust. This led to a new delayed discharges project. The trust worked with the primary care trust to clarify care pathways – including end of life care in the community as well as in hospital – and established a local health economy sub-group with representation from PCTs, social and acute care providers to review and advise on patient safety.

Medway appointed a non-executive director as chair of the Governance and Risk Committee.

In March 2008, Monitor's Board reconsidered Medway's application. We felt that the trust had made significant progress in addressing the governance concerns and were satisfied that the governance structure had been improved, with practical and achievable action plans in place. The decision was taken to authorise Medway as a foundation trust from 1 April 2008.

Medway NHS Foundation Trust is continuing its drive for improvement, particularly in relation to SMR. The Mortality Working Group (renamed the Patient Safety Group) has been working with the medical director's team to develop a trust-wide methodology for departmental reviews of deaths within 30 days of them occurring and it is anticipated that a review of mortality will lead to the development of a mortality database.

The trust also plans to invite external assessors periodically to undertake random mortality audits, the results of which will be presented to the Integrated Audit Committee.

Reflecting on the assessment process, Andrew Horne, Medway's Chief Executive commented:

"Although the delay we faced in becoming a foundation trust was disappointing, it helped strengthen the governance and particularly the patient safety process to enable achievement of high standards expected of foundation trusts. This is clearly to the benefit of our patients and we hope they will be pleased to know that the standard of our services has been pushed to meet those of the best NHS foundation trusts across the country."

Rigorous assessment

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Deliver a high and consistent standard of assessment	Monitor's Board decisions based on quality analysis and insight	**Action completed** Monitor assessed 45 applicants in 2007-08 and two acquisitions
	Manage work of sub-contractors and review working capital and financial reporting procedures of new applicants	**Action completed**
	Review and approval of all applicant constitutions and any subsequent variations	**Action completed**
	Ensure all NHS foundation trusts have a representative membership and a strategy in place to grow membership numbers	**Action completed** Approach to membership requirements refined with the introduction of a membership report from October 2007, as outlined in *Updating the Guide to Applicants: Summary of Changes*

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Ensure assessment system is able to deliver at least 50 assessments a year	Produce resource plan for assessment team linked to the anticipated applicant pipeline to ensure 50 assessments a year	**Action completed** Resources were available to assess 50 applicant NHS trusts referred to Monitor during 2007-08. Monitor assessed 45 applicants in 2007-08 and two acquisitions
	Refine our assessment processes to ensure efficient use of our limited assessment capacity	**Action completed** Batching checklist introduced from October 2007 to identify issues early and inform the timetable for assessment
	Review deferral policy and consider impact of tighter time limit for deferrals	**Action completed** From October 2007, period of deferral reduced to three months for issues identified which are in the trust's control unless exceptional circumstances exist
	Review postponement policy and consider impact of a tighter time limit for postponements	**Action completed** Reviewed in *Updating the Guide to Applicants: Summary of Changes*. Further consideration needed in 2008-09 given lower than expected number of applicants and reduction in the pipeline
	Reassess all deferred applicants in line with revised deferral policy	**Action completed** There have been no deferrals reassessed since the revised policy was introduced in October 2007
Assessment of all transactions with major risks	Publish framework for the review and approval of private finance initiative (PFI) schemes for NHS foundation trusts	**Action completed** *Roles and Responsibilities in the Approval of NHS Foundation Trust PFI Schemes* published in June 2007
	Assess major investments, mergers, acquisitions and all other transactions with major risks	**Action completed** Heart of England NHS Foundation Trust and South Staffordshire NHS Foundation Trust completed in early 2007-08
	Develop methodologies for assessing new categories of applicant trusts potentially including: community services; ambulance trusts and NHS Direct	**Action completed** Feasibility study completed for ambulance trusts and development of methodology ongoing. In 2008-09, further work will focus on community NHS foundation trusts and potentially NHS Direct

“The assessment and authorisation process has driven huge changes in the hospital sector.”

William Moyes –
Executive Chairman, Monitor

Proportionate regulation

Monitor has created a system of regulation which is able to deal effectively with financial problems in NHS foundation trusts. Less well understood is the impact of Monitor's approach to non-financial service performance.

Trust boards are the first line of regulation in NHS foundation trusts; we have to ensure they discharge their responsibilities effectively, and take remedial action if they do not.

Our approach to compliance has continued to work efficiently and effectively over the last year, allowing us to spot problems before they develop into more serious service failures and to intervene where necessary. In February 2008, we identified seven NHS foundation trusts where we had serious concerns about their ongoing performance against annual MRSA targets. We required them to attend formal meetings to present their plans to deal with MRSA to Monitor. These meetings took place during March and the NHS foundation trusts involved received follow up correspondence identifying where they had not taken effective action to rectify the situation.

In May 2008 we informed four foundation trusts that they were in significant breach of their terms of authorisation. This was to ensure that infection control issues are receiving the attention they require at the highest level within these trusts.

Since then, at Monitor's request, independent audits of infection control compliance have been carried out at a further four trusts. Following a review of the feedback from these audits, Monitor will look to the boards of these trusts to demonstrate that they are taking all necessary actions in order to meet their targets in 2008/09.

Refining our approach to compliance

The Healthcare Commission's report into failings at Maidstone and Tunbridge Wells NHS Trust published in October 2007 provided an opportunity to assess again how our *Compliance Framework* would have identified similar issues had they arisen in an NHS foundation trust.

This provided us with further assurance that Monitor's compliance processes would have identified governance failings and concerns about management weaknesses in an NHS foundation trust. These would have come to light through the submission and reviews of the trust's annual plan and in-year reporting, proactive relationship management with a single point of contact, and collection and assessment of third party intelligence. This, combined with review and action plans for any shortfalls in healthcare and financial performance, would have prompted more intensive monitoring and further investigation. Ultimately, failure to deliver the necessary improvements could have resulted in the use of our formal intervention powers.

In addition to the above work, we continued to develop our approach to compliance in 2007-08, as we do each year, starting with the publication of the revised *Compliance Framework* in April 2007. We consulted again on how this should develop for 2008-09 in January 2008, and published an updated *Compliance Framework* in May 2008. This incorporates the healthcare targets and national core standards which we will use to directly assess service performance in 2008-09; failure to meet these is an indicator of poor governance.

We have also refined our reporting requirements for membership to ensure that boards are developing effective plans which promote the growth of a representative membership and capitalise on the benefits of active engagement with members.

We have continued to build effective working relationships with stakeholders, ensuring we have access to expert advice and wider health sector intelligence. Strong relationships with the Healthcare Commission, together with other regulators and auditors in the healthcare sector, and the Department of Health's infection control and 18 weeks target teams, have helped develop and refine our approach to quality issues.

Foundation trust performance in 2007-08

We publish annual and quarterly reports covering the performance and risk ratings for NHS foundation trusts. These provide a summary of the performance of the foundation trust sector, and also give individual NHS foundation trusts the opportunity to understand their own performance in relation to other foundation trusts.

Throughout 2007-08, NHS foundation trusts continued to deliver strong financial performance. Based on the unaudited results for the twelve months to 31 March 2008, 89 NHS foundation trusts generated total revenues of £16.3 billion, £566 million (3.6%) ahead of their aggregate plans. Net surplus (before exceptional items) for the period was £514 million, £303 million above plan. This is after public dividend capital (PDC) dividends of £352 million, but before exceptional charges of £120 million.

This financial performance reflects an EBITDA margin of 8.0% (plan: 6.7%) and represents improvement in productivity and efficiency, both compared with plans and also against the results for the previous 12 months (EBITDA margin: 6.7%). Of the 89 NHS foundation trusts authorised at 31 March 2008, 88 achieved a surplus (before exceptional items) for the full year. The aggregate cash balance in the sector has continued to grow with a balance of £2.3 billion for 89 trusts at the end of 2007-08.

An average financial risk rating of 4.2 was achieved for the full year. This compares with an average financial risk rating of 3.8 in NHS foundation trusts' annual plans for 2007-08. As at the end of the fourth quarter of 2007-08, for the first time, there were no NHS foundation trusts with a financial risk rating of 1 or 2 (the lowest ratings).

NHS foundation trusts also performed well in relation to governance, with few reported breaches outside MRSA performance. As at the end of the fourth quarter of 2007-08, 47 NHS foundation trusts had a green risk rating for governance; 37 had amber risk ratings, and five had red risk ratings as a result of failing to meet healthcare targets and standards.

Board assurance

Our approach is risk-based and depends on boards taking the lead in identifying potential risks and self-certifying against these. We require NHS foundation trust boards to self-certify anticipated compliance with their terms of authorisation in their annual plans, and again quarterly to certify actual performance. We use self-certifications as evidence of effective governance but follow up where we have concerns about the accuracy of declarations made by boards.

Boards must ensure they understand the risks of non-compliance and self-certify actual and anticipated compliance, based on sound procedures and good information. In December 2007 we asked 11 NHS foundation trusts to commission independent reviews of their board's self-certification processes because we had concerns about their approach. In February 2008 we published the findings of the reviews so we could share the lessons with all NHS foundation trust boards.

These lessons highlighted the need for board discussions to focus on both historical performance of the trust and to forecast future risk and performance in order to be confident that their action plans can deliver targets. When submitting self-certifications to Monitor, boards must receive sufficient and timely independent assurance and ensure there is an appropriate level of challenge from non-executive directors. We will continue to monitor how NHS foundation trusts are self-certifying in 2008-09, and we may ask some trusts to commission similar reviews in the future if further self-certification procedural issues emerge.

"79% of FT directors surveyed said that we had made a positive impact on their organisation."

Summary of NHS foundation trusts with compliance issues in 2007-08

NHS foundation trusts with financial issues

City Hospitals Sunderland	The trust delivered operating deficits in each of 2004-05 and 2005-06, and then shortfalls against the delivery of its recovery plan in 2006-07 leading to an independent review and agreement of objective recovery criteria in 2007-08. During the year the trust exceeded the recovery criteria and has now returned to quarterly financial monitoring from 2008-09. By the end of 2007-08 the trust achieved a financial risk rating of four.
Royal National Hospital for Rheumatic Diseases	As at the end of 2007-08 the trust has a financial risk rating of two, having delivered a small deficit in each of the last three years. Its financial risk rating was three in the first nine months of 2007-08. Following the appointment of a new Chair and four non-executives, progress against the trust's annual plan is to be tracked to a sustainable recovery. The trust remains on monthly monitoring. In addition, during the year the trust was at risk of breaching its Private Patient Income (PPI) cap, although following a review of procedures and the method by which measurement of its PPI related activity was reported, the trust has confirmed that it has not breached its PPI cap in 2007-08.
Sherwood Forest Hospitals	Prior to its authorisation the trust had entered into a Private Finance Initiative (PFI) which requires the delivery of significant productivity improvements in the period up to the completion of the construction phase. In order to ensure affordability of the scheme, Monitor has required the trust to meet and report progress monthly against agreed affordability criteria. As at the year end the trust has demonstrated improved financial performance and has returned to quarterly monitoring. For 2007-08 the trust achieved a financial risk rating of four.
Tavistock and Portman	The trust delivered a financial risk rating of two in Q1 2007-08, and was required to provide both a rectification plan and also, following the appointment of a new Chief Executive, a medium term strategic review. As at the end of 2007-08, the trust returned to a surplus and a financial risk rating of three.
University College London Hospitals	The trust reduced its operating deficit from £35.6m in 2005-06 to £6.6m in 2006-07 and in 2007-08 completed its recovery, delivering a surplus of £15m. Following receipt of its annual plan for 2007-08, during which it achieved a financial risk rating of four, the trust returned to quarterly monitoring.

“84% of NHS foundation trust board directors surveyed agreed that Monitor’s *Compliance Framework* is fit for purpose.”

NHS foundation trusts with governance issues

Calderdale and Huddersfield	As at Q4 of 2007-08 the trust is in significant breach of its authorisation, and as a result rated red for governance risk, reflecting concerns arising from its MRSA performance. Performance against its MRSA target in 2008-09 will be monitored on a monthly basis. To the extent the trust fails to satisfactorily address these concerns, if required, Monitor is likely to use its formal powers of intervention.
Doncaster and Bassetlaw Hospitals	As at Q4 of 2007-08 the trust is in significant breach of its authorisation, and as a result rated red for governance risk, reflecting concerns arising from its MRSA performance. Performance against its MRSA target in 2008-09 will be monitored on a monthly basis. To the extent the trust fails to satisfactorily address these concerns, if required, Monitor is likely to use its formal powers of intervention.
Gloucestershire Hospitals	The trust was red rated for governance risk in Q2 2007-08 as result of a failure to achieve priority healthcare targets following serious flooding and resulting disruption. The trust addressed these concerns in an effective and timely manner and returned to an amber rating for governance risk in the following quarter.
Lancashire Teaching Hospitals	During 2007-08 the trust faced various service performance issues including waiting list breaches and infection control concerns. The trust was rated red for governance risk as a result and the trust board was required to meet with Monitor's board to explain the reason for these failings, the plans in place to rectify them and to then ensure that they did not reoccur. Subsequently the trust has appointed a new Chair. As at Q4 of 2007-08 the trust is in significant breach of its authorisation, and as a result rated red for governance risk, reflecting concerns arising from its MRSA performance. Performance against its MRSA target in 2008-09 will be monitored on a monthly basis. To the extent the trust fails to satisfactorily address these concerns, if required, Monitor is likely to use its formal powers of intervention.
Moorfields Eye Hospital	The trust breached healthcare targets including the 31-day cancer waiting time target in each quarter during 2007-08, and as such received a red rating for governance risk. Despite the trust arranging to transfer services to another hospital at the end of Q3 2007-08, in Q4 the trust identified that further cases had not been properly recorded. With effect from April 2008 a newly appointed Chair, Chief Executive and Finance Director, together with two new non-executive directors, are in position. This new team is currently undertaking a full review of procedures to ensure that any further service performance issues are identified and then acted upon in an effective manner. Monitor will continue to review delivery of these objectives on a regular basis.
Peterborough and Stamford Hospitals	During 2007-08 the trust, in agreement with Monitor, commissioned independent reviews of its reporting processes and board and governance procedures. This followed identification of significant misreporting of orthopaedic inpatient and outpatient waiting times. The focus of the work was to rectify service performance issues but also to ensure that the trust had in place systems and leadership to recognise and address future risks. By December 2007 the trust had no remaining waiting list breaches. By the year end, with external support, the trust had undertaken a review of its board and, following this, progressed its board development programme. Following the year end the trust has appointed a new Chair and returned to an amber rating for governance risk.

NHS foundation trusts with governance issues

Poole Hospital	As at Q4 of 2007-08 the trust is in significant breach of its authorisation, and as a result rated red for governance risk, reflecting concerns arising from its MRSA performance. In addition, other governance issues have given rise to further investigation, including the basis of reporting information to Monitor and the trust's own board and also the recognition and identification of potential risks to compliance with its authorisation. Performance against its MRSA target and actions to enhance governance at the trust during 2008-09 will be monitored closely. To the extent the trust fails to satisfactorily address these concerns, if required, Monitor is likely to use its formal powers of intervention.
The Royal Marsden	Following a significant fire the trust was rated amber for governance risk to reflect an uncertainty as to whether it may meet some of its healthcare targets. The trust undertook effective and timely action, and in Q4 2007-08 it returned to a green rating for governance risk.
Other	During 2007-08 Monitor: • required 11 NHS foundation trusts to undertake reviews of their systems of board assurance due to concerns that they may not have properly considered the risk of breach against their Terms of Authorisation; • reviewed infection control processes at a further three NHS foundation trusts, before concluding they were not in significant breach of their authorisations; • required four further NHS foundation trusts to undertake independent reviews of infection control procedures, the outputs of which remain to be considered; and • required monthly reporting of action plans to rectify the position from each NHS foundation trust which breached or risked breaching priority one targets in the year.

Case study

Peterborough and Stamford Hospitals NHS Foundation Trust

Early warning, cooperation and decisive action: compliance measures tackle missed targets.

Peterborough and Stamford Hospitals NHS Foundation Trust's failure to meet waiting list targets was captured by Monitor's compliance procedures and within six months the trust was back on track to recovery.

Problems achieving healthcare targets and standards are often identified and resolved quickly. Occasionally multiple issues arise, resulting in breaches of several national targets or standards, or there is a failure to meet a particular target which continues over time.

This case study highlights the benefits of working with trusts to ensure problems are rectified early rather than escalating into significant service failures, requiring the use of our formal intervention powers. In addition, the focus is the resolution of the cause of the problem not just resolving the problem itself. Monitor's approach, with a relationship manager responsible for each trust, ensures a transparent, proportionate and consistent response to issues as they arise.

The issue

In 2007, the trust reported to Monitor that it had breached the national waiting time targets for orthopaedic treatment and faced a potential failure in the management of the in-patient and out-patient orthopaedics waiting list. As a result, Monitor allocated the trust a red governance risk rating for the fourth quarter of 2006-07.

How it was identified

Patient complaints prompted a system check, which revealed that records suggested patients had been contacted, and treated in accordance with waiting time requirements, when they had not. Further checks established that patients had been suspended from the waiting lists incorrectly, and as a result 1,175 patients were waiting longer than the six month in-patient target.

Action taken

Under Monitor's oversight, the trust commissioned a detailed investigation, with external and independent help from advisors. More than 60 staff were interviewed, 2,400 patient records examined and the entire patient administration system reviewed. The matter was also reported to the Healthcare Commission, with the trust declaring non-compliance on core standard 18 (equal access and choice in access to services).

Progress updates were made to Monitor, with the trust's senior management team attending regular review meetings.

The final report had 24 recommendations. These were used to develop an action plan which was monitored by the board of directors, Monitor, and in executive directors' one-to-one meetings with the chief executive.

By the end of October 2007 the breach of the target affected just two patients; by the end of October 2007 no patients were waiting longer than the target time. Through this period, Monitor continued to work with the Trust through regular reporting and meetings to ensure that board processes and procedures were established to manage current and future risks relating to compliance with healthcare targets.

Next steps

Following further meetings between Monitor and the trust, the trust's board, with the help of external advisers, undertook a full diagnostic and development review of its board and senior management structures.

The review highlighted leadership and capability issues – specifically the need for the board to demonstrate more strategic, forward-looking leadership, and to deliver these responsibilities more effectively by engaging in open and constructive challenge. The focus of the board was also raised as an issue, particularly in terms of striking the right balance between being more strategic and forward-looking and gaining assurance from the executive management team on the delivery of operational performance.

There was a need for more clarity in the roles and responsibilities to enable the board of Directors and the board of Governors to operate effectively. Finally, to support the move towards a better focus and contribution from the trust's directors, it was recommended that the board structures and processes be realigned.

The report has been shared with other NHS foundation trusts, so they can learn from the experience. A new Chair has now been appointed at the trust.

Nik Patten, Chief Executive, said: "The financial year 2007/08 was extremely challenging following our discovery of the problems with our orthopaedic waiting list in January 2007. We launched an internal investigation quickly that identified the full extent of the issues and produced an action plan to overhaul several internal systems and procedures.

"I consider us very fortunate that we are a foundation trust and had the benefit of Monitor's support and objective challenge to make sure we resolved the issues as quickly as possible. This was to solve not just this problem but to ensure that we had the board leadership, skills and governance structures in place to make our operational framework much more robust for the future. This process led to the trust being able to declare no 26 week breaches by January this year and meet the 18 week admitted inpatient milestone in April."

The trust received an amber rating for governance risk for quarter 4 of 2007/08 and at the beginning of 2008-09 reverted to quarterly monitoring.

Proportionate regulation

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Prepare compliance systems for growth of NHS foundation trust sector	Refine compliance, monitoring and intervention processes so they are capable of dealing with up to 200 NHS foundation trusts without significant increase in staffing	**Action completed** • Revised *Compliance Framework* issued early April 2007 clarifying approach to intervention • Monitoring, Assessment and Reporting system (MARs) implemented; ongoing work to develop IT systems further to support compliance • Team structure in place. Recruitment ongoing to match increasing number of NHS foundation trusts
Develop *Compliance Framework*	Consult on any proposed changes to the compliance regime to reflect developmental work on Monitor's approach to quality and governance	**Action completed** Consultation on the *Compliance Framework* for 2008-09 included proposal to include public constituency membership by gender and election turnout rates in annual reports Issued clarification on the requirements for boards to self certify clinical quality
	Review approach to targets and standards for the 2008-09 planning round following the 2007 Spending Review	**Action completed** Revised approach included in consultation on the *Compliance Framework* for 2008-09
Successful intervention in event of any significant non-compliance with Terms of Authorisation	Ensure early identification of compliance issues within NHS foundation trusts through monitoring and compliance process with timely action to resolve	**Action completed** Quarterly monitoring and annual risk assessment processes worked well. Good progress on all trusts with issues
	Develop the intervention framework to ensure scalable, efficient and effective approach to intervention that secures the recovery of the NHS foundation trust within two years	**Action completed** • Financial: procedures agreed and implemented • Non-financial: clinical-network of advisers maintained and infection control framework developed. Governance: board review procedures developed

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Ensure robust and transparent annual accounts for NHS foundation trusts	Revise the *NHS Foundation Trust Financial Reporting Manual* to reflect the requirements of the International Financial Reporting Standards (IFRS) and consult on the changes such that the revised FT FReM is in place for the adoption of IFRS by the public sector in April 2008	**Action deferred** Work to develop the revised *NHS Foundation Trust Financial Reporting Manual* to take account of IFRS was substantially complete. However, the adoption of IFRS has been delayed by HM Treasury until 2009-10. The Monitor Board agreed that this action would be deferred to 2008-09 A revised *NHS Foundation Trust Financial Reporting Manual* (not IFRS) will be published for 2008-09. The NHS Foundation Trust Financial Reporting Manual 2007-08 was consulted on and issued
	Revise the *Prudential Borrowing Code for NHS Foundation Trusts* to reflect the requirements of the International Financial Reporting Standards (IFRS) and consult on the changes such that a revised code is in place for the adoption of IFRS by the public sector in April 2008	**Action deferred** The adoption of IFRS has been delayed by HM Treasury until 2009-10. The Monitor Board agreed that this action would be deferred to 2008-09
	Review the *Audit Code for NHS Foundation Trusts*	**Action completed** A revised *Audit Code for NHS Foundation Trusts* was published in October 2007

Developing a devolved system

Monitor's vision is for an affordable devolved healthcare system in which patients choose and commissioners purchase high quality healthcare from a range of providers who operate within a regulatory regime that provides incentives for professional management and financial discipline.

Monitor has a significant contribution to make to the development of a devolved healthcare system: through our regulatory framework; by influencing national policy and in supporting the development of professionally managed NHS foundation trusts.

Influencing national policy

2007-08 has seen a number of significant policy developments which will shape the future healthcare system. We have made important contributions to each of these.

NHS Next Stage Review

Our submission to Lord Darzi's review of the NHS highlighted our belief that the review's priority should be to improve the quality of care for patients. We described the steps we think are needed to improve quality: publishing performance against clinical outcome measures; strengthening clinical leadership of quality; and introducing financial incentives for achieving quality objectives.

System management rules

The NHS in England: the Operating Framework for 2007-08 recognised the principles of a devolved healthcare system. We were pleased that the *Operating Framework* was addressed to commissioners and that it recognised the autonomy of NHS foundation trusts.

The Department of Health has made progress to ensure that PCTs have effective contracts in place to deliver the Government's priorities. We consider that there is now a more appropriate balance of risk between commissioners and providers. In 2008-09, Monitor would like the focus in the national contract to change from penalties for poor performance to incentives for delivering quality objectives.

The Department of Health has also focused on clarifying the roles and responsibilities of the different bodies within the healthcare system. We are pleased with the progress made in introducing a more rigorous competition policy.

We have worked with the Department of Health to develop a transactions manual for mergers and acquisitions. Drawing on the best practice from the commercial sector, the manual will provide more certainty and clarity to the market and will support appropriate reconfiguration within the NHS.

Regulatory framework and the Health and Social Care Bill

In October 2007, the Department of Health published its response to its earlier consultation on the future regulation of health and social care. In November the government published the Health and Social Care Bill.

During 2007-08, we have continued to contribute constructively to the development of the proposals to establish the regulatory framework. We have highlighted throughout the passage of the Bill, the importance of clarity in health regulation, in particular around the possible overlapping intervention powers of the new Care Quality Commission and Monitor.

Although we remain concerned about the consequences of a lack of clarity around the roles of the two regulators, we are positive that we can extend the strong working relationship established with the Healthcare Commission with its successor organisation.

Establishing effective governance

To understand how the unique accountability arrangements for NHS foundation trusts are working, we commissioned Ipsos MORI to undertake a survey of foundation trust governors, focusing on their understanding of the role, whether or not they had carried out their statutory duties and their engagement with the activities and membership of their NHS foundation trusts. Over 1,300 governors replied to the survey.

The results were positive, demonstrating that, while there is some variation in the experience and engagement of governors, they are beginning to get to grips with the work they have to do, including the use of their statutory powers. More than 500 governors attended four regional events held in March 2008 to present the survey findings and explore the results in more detail.

In 2008-09, we will work with partners to support governors to understand the role they play in the good governance of NHS foundation trusts and to provide them with guidance to discharge their statutory duties.

Developing professionally managed NHS foundation trusts

The board of an NHS foundation trust is ultimately responsible for the trust's success or failure. Our focus has therefore been on developing the organisational capability of boards and senior management teams.

Building board capabilities

With the Cass Business School, we introduced a Strategic Financial Leadership Programme to build world class financial leadership in the NHS.

During 2007-08, 164 finance directors from across the NHS attended the programme, studying governance, mergers and acquisitions, treasury management and strategic planning. The feedback from the course has been very positive so far. Finance directors have reported that the course has supported them to better understand and focus on the operational and strategic issues facing foundation trusts and non foundation trusts in a rapidly changing NHS.

"The programme proved excellent in consolidating what you already knew, provided a foundation for what you should know and gave you a flavour of what you might need to know as the environment and all its challenges develops."

Patrick Crowley, Chief Executive, York Hospitals NHS Foundation Trust

During 2008-09 we plan to work with the NHS Institute for Innovation and Improvement to introduce a similar programme for non-executive directors.

> **“Service-line management gives clinicians the power to achieve what they want to achieve.”**

John Jacob, Royal Devon & Exeter NHS Foundation Trust clinical director, specialist surgery

Promoting service-line management

To help clinicians, managers and boards better understand and improve performance at service level, we have continued to promote service-line management. This concept, introduced to the NHS by Monitor, involves organising care by business unit (or service-line). By providing senior clinicians with detailed financial and operational data about their unit, they can make strategic and clinical decisions to support continuous improvement.

More than a dozen foundation trusts have worked intensively with Monitor, with each project focusing on a specific clinical service. These pilot sites are reporting positive results from their work so far.

We will continue to promote service-line management in 2008-09 and will extend the model further to give boards the tools to understand patient experience, staff satisfaction and clinical quality.

Improving the management of quality

We believe that there are three key steps to improving quality: establishing appropriate incentives within the healthcare system; effective management of quality at board and service-line level; and service improvement at the front line.

In 2007-08, we clarified our expectations for boards' arrangements for monitoring and improving the quality of healthcare. We expect that an NHS foundation trust board should be able to define its quality objectives and track its performance against these on the basis of clearly identified performance measures. In 2008-09, we are intending to consult on the requirement for NHS foundation trusts to publish these quality objectives in their annual report.

We have reviewed best practice internationally to see how providers within other health systems manage quality. We have also worked with University College London Hospitals NHS Foundation Trust to explore how to engage front line staff in improving quality, focusing on patient experience and staff satisfaction in maternity services. Early findings show significant improvements in both areas and continued staff engagement to drive change.

Developing tools to support boards to manage quality effectively will be our main focus in 2008-09.

Case study

Learning from experience: governors talk about the value of communicating with each other

One of the most valuable experiences of Monitor's work with governors in 2007-08 was the opportunity we had to hear first hand from the people making local accountability in the NHS a reality.

We knew from the results of our *Survey of Foundation Trust Governors* that the overall message from governors was very positive. Four regional events hosted by Monitor in March 2008 enabled governors to highlight issues requiring further attention and pointed to action for us to take.

Authorised since 1 January 2005, Chesterfield Royal Hospital NHS Foundation Trust's governors were among the more experienced delegates. Sheila Smith says they have something to offer their newly elected counterparts:

"I'm starting to find that my trust is a lot more experienced at this than most other foundation trusts; the event hosted by Monitor really highlighted that. We were one of the first foundation trusts and we weren't sure how we'd fit into this new role. But now, if governors go to events and communicate with each other, there is likely to be somebody who can pass on experience that might help."

For new governors without a background in the NHS, there is plenty to learn. However, as Shelia's fellow governor, Bernard Everett explained, provided governors are supported by their trust, they can play an integral part in linking the trust to its community:

"I think it's essential that a lot of governors don't have an NHS background because the public doesn't have one and we are supposed to represent the public. People may be expert in their field, but they need to explain what they're doing to the layman, and that's how I see my role; I ask sensible questions and get sensible answers."

Bernard and Sheila share an enthusiasm for their new role and the opportunity to be involved in shaping the provision of their local health services. They cite their experience of developing the new £5 million children's out-patient facility at Chesterfield Royal Hospital NHS Foundation Trust. Governors and members were involved in the project, and Bernard sees this as a prime example of governors using their role to make sure patients get the services they want.

Both governors agree that one of their biggest challenges is engaging the local community in their work. Their view is mirrored in the *Survey of Foundation Trust Governors,* which revealed that although governors generally agree they should represent the views of their members, they are less confident that their trust is delivering that function. There are no set procedures for trusts to follow regarding membership development, so they must devise and implement their own strategies. It is common for governors to be given responsibility for taking this forward which, according to Bernard Everett, requires a significant amount of their attention:

"The biggest challenge is keeping in touch with the people we represent, and we're still exploring more effective ways of doing that. We've set up an outreach committee to work on membership development, and we've organised events based on specific themes that we invited our members to attend. But based on the conversations I have with governors at other trusts I think this is a common problem; how do we actually interact, how do we find out what is concerning people?"

It is for foundation trusts to find solutions to many of the issues identified by governors. But as the regulator, there are areas where we feel it is appropriate for Monitor to be directly involved. This is reflected in our commitment to look more closely at their statutory responsibilities in 2008-09, and Sheila Smith believes that governors would appreciate more guidance in this area:

"There's not been any assessment of how governors are performing their statutory duties. To throw new governors into something important such as choosing an auditor is a big challenge. Perhaps there is a place for looking at how well equipped governors are to do it."

"If governors go to events and communicate with each other, there is likely to be somebody who can pass on experience that might help."

Sheila Smith

Developing a devolved system

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Contribute to the system reform programme	Develop positive relations with the new Department of Health (DH) and NHS leadership and new Number 10 team, once established	**Partially achieved** Continuing to build strong relationships with the leadership of the Department of Health and the NHS Significant input into the Department of Health's response to its consultation on the future of regulation. However, Health & Social Care Bill did not create clarity around intervention roles of Monitor & Care Quality Commission Engaged in the development of tariff policy. Decisions on tariff regime and failure regime delayed subject to NHS Next Stage Review. Unplanned involvement in NHS Next Stage Review No progress on the development of the capital regime
	Contribute to DH policy developments as appropriate, including: • the development of the future regulation of healthcare; • the development of the capital regime, including insolvency; • tariff policy; and • the future of provider reform	
Ensure operating framework of the NHS incorporates the requirements of NHS foundation trusts	Work with DH and the NHS Confederation on the development of the 2008-09 model contract and dispute procedures	**Action completed**
	Influence the development of the Operating Framework for 2008-09	**Partially achieved** Late involvement in development of the Operating Framework, delaying alignment of Compliance Framework
Promote the development of professionally managed NHS foundation trusts	Develop a vision for the future health provider based on specialist units and dispersed community facilities	**Action not completed** Not pursued in 2007-08 financial year because the Department of Health has taken this forward as part of the NHS Next Stage Review
	Promote the adoption of service-line management	**Action completed** Directly involved with twenty NHS foundation trusts to date. Good progress encouraging adoption
	Review progress on governance and capture best practice including: • board roles and training; • role of governors; and • impact of the NHS Foundation Trust Code of Governance	**Partially achieved** Finance Director course successful. Non executive director course under development with NHS Institute. Survey of governors and accompanying conferences held. Code of Governance evaluation postponed until 2008-09

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
	Working with partners, develop Monitor's approach and contribution to managing quality to promote a balance between economics and quality improvement	**Action completed** Monitor's approach to supporting better quality management in place, informed by an initial pilot with University College London Hospitals NHS Foundation Trust
	Work with DH to develop a standardised approach to acquisitions	**Partially achieved** Project to develop mergers and acquisitions guide still in progress
Manageable pipeline of NHS foundation trust applicants	Review Monitor's role in developing the NHS foundation trust applicant pipeline	**Action completed** Current limited Monitor role in Department of Health/Strategic Health Authority efforts on the pipeline is appropriate
	Provide technical advice and support to DH in resolving issues in the community NHS foundation trust pilots	**Action completed** The Department of Health has not requested significant technical support to date

Clear and effective communications

As we move towards a point where over half of all acute and mental health trusts are NHS foundation trusts, the need for us to broaden the reach of our communications and deepen understanding of our work is increasingly apparent.

The growth in NHS foundation trusts means there are more people locally and nationally with an interest in foundation trusts. It is important that we make sure they understand the benefits of our regulatory approach and its contribution to the quality and value for money of healthcare.

To support these efforts in 2007-08 we produced new publications and briefing material aimed at introducing a wider, less expert, audience to our work. These included a leaflet *About Monitor: effective regulation, better patient care.*

A new approach to communications

Building on the recommendations of a communications audit, our new director of public affairs and communications introduced a 'campaigns' approach to our work. The campaigns integrate our communications functions – publications, events, web, speeches, media and stakeholder relations – to support Monitor's overall business objectives. For example, to improve the level of understanding in and engagement between Monitor and NHS commissioners.

We have also used this integrated approach to our communications to highlight Monitor's involvement in non-financial performance problems, as research with NHS senior managers and our contact with key stakeholders showed that this aspect of our work was poorly understood.

Although these campaigns are in their early stages, they demonstrate that a more integrated approach to communications is likely to have benefits for Monitor and our stakeholders.

Parliamentary awareness

It is crucial that members of both Houses of Parliament, particularly constituency MPs, understand that foundation trusts are not accountable to the Department of Health via Strategic Health Authorities but to the trusts' members and commissioners, to Monitor as their regulator and to Parliament.

The Health and Social Care Bill created an opportunity for Monitor to increase the level of understanding in Parliament about the foundation trust programme and what we do. When the Bill was published in 2007 we communicated our concerns to parliamentarians about the need for clarity in the planned legislation, in particular in relation to the powers that will be held by both Monitor and the new Care Quality Commission to intervene with NHS foundation trusts where there are problems.

We produced parliamentary briefing material on our compliance regime and other aspects of our work. In the spring of 2008 we held a session with the All Party Parliamentary Health Group on *'Foundation Trusts: Towards a Devolved NHS'.* This provided a forum where we could discuss the implications for parliamentarians of the autonomy granted to NHS foundation trusts.

Evaluation and feedback

We continue to evaluate the quality and impact of our communications. In addition to the communications audit, we commissioned Ipsos MORI to speak to 200 NHS directors across foundation and non foundation acute and mental health trusts and primary care trusts. We asked about their understanding of our role and our effectiveness. The work provided a very useful picture of where our stakeholders think we are most and least effective. The findings were encouraging, with more than 80% taking the view that we carry out our functions well and that we are professional, rigorous and independent in our approach. Perhaps most positively, over 70% feel that Monitor is adding value to the healthcare system. The survey also showed where we need to address concerns or a lack of understanding of our role. For example our stakeholders were less confident in our communications and that we work well in partnership with other organisations.

We were pleased that the proportion of our NHS stakeholders who feel that Monitor keeps them informed about its work increased from 46% to 57% in 2007, rising to nearly nine in ten foundation trusts. However, the figures fell as low as 25% in PCTs. Better engagement with PCTs is one of our core campaigns for 2008-09 and we will look for improved results in next year's survey.

Maintaining the momentum of service-line management

During the year we responded to the growing interest in the concept of service-line management (SLM), introduced to the NHS by Monitor. To support the demand for information by senior managers and senior clinicians in the NHS on how they can use SLM to better understand, manage and improve their services, we held two joint conferences on the subject, with the King's Fund and the Healthcare Financial Management Association. We published material on SLM including a 'How To' guide building on the work of the pilot SLM sites.

Developing our website

We produced a wide range of publications, including those required of us by statute such as the consolidated report and accounts for foundation trusts, our own business plan and annual report. We also published a range of guidance and advice for foundation trusts and applicants. While much of this information is in paper form, we recognise the need to reduce hard copy publication and are aware of the importance of enabling people to access information and publications through our website in a way that is easy to navigate and quickly gets them what they want.

We have completed the first phase of a major website redevelopment. This work analysed current use of the site, weaknesses and strengths as perceived by users and how the website could better meet the needs of the organisation and its audiences. The technical delivery of the new site will take place in the summer of 2008.

Monitor's publications in 2007-2008

April 2007	Compliance Framework 2007
	Annual Plan for 2007/08: Advice for NHS Foundation Trusts
May 2007	Organisational Development Plan 2007-08
	Applying for NHS Foundation Trust Status: Guide for Applicants
	Business Plan 2007-08
June 2007	2006-07 year-end financial data
	NHS Foundation Trusts: Report for Year Ended 31 March 2007
	Roles and Responsibilities in the Approval of NHS Foundation Trust PFI Schemes
July 2007	Variation of the Terms of Authorisation: Guidance for NHS Foundation Trusts
	Monitor's Annual Report and Accounts 2006-07
August 2007	NHS Foundation Trust Model Core Constitution
	NHS foundation trusts: annual plans 2007-08
September 2007	Updating the Guide for Applicants: Summary of Changes
	NHS foundation trusts: review of three months to 30 June 2007
October 2007	Audit Code for NHS Foundation Trusts
	The Monitor assessment process – a consultation on the introduction of service-line management
	Monitor's response to 'The Future Regulation of Health and Adult Social Care in England'

November 2007	Consultation on proposed amendments to the NHS Foundation Trust Financial Reporting Manual 2007-08
	Guide to Implementing Service-Line Management
	NHS Foundation Trusts: Review and Consolidated Accounts 2006-07
	Report on the audits of NHS foundation trusts' accounts (year ended 31 March 2007)
December 2007	About Monitor: Effective Regulation, Better Patient Care
	NHS foundation trusts: review of six months to 30 September 2007
January 2008	Summary of responses to Monitor's consultation on proposed amendments to the NHS Foundation Trust Financial Reporting Manual 2007-08
	Consultation on amendments to the Compliance Framework
February 2008	NHS Foundation Trust Financial Reporting Manual 2007/08
	Effective governance in NHS foundation trusts – briefing on self certification
	Strategic Financial Leadership course information brochure
	Summary of responses to the consultation on introducing service line management to the Monitor assessment process
March 2008	Monitor publishes further information on year-end accounts process for NHS foundation trusts
	NHS foundation trusts: review of nine months to 31 December 2007

Clear and effective communications

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Deliver programme of communications to promote Monitor's messages to key stakeholders	Implement integrated programme using publications, briefings, speeches and media activity to promote key messages	**Action completed**
	Develop networks with NHS foundation trusts and influencing groups, developing links at all levels in the organisation	**Action completed** Reference groups of acute and mental health NHS foundation trusts established and meeting regularly. Work underway to develop relationships with PCTs
	Continue to improve the effectiveness of the 'Top 50' contact programme	**Action completed** Programme reviewed regularly through the Communications Steering Group
	Ensure stakeholders understand Monitor's role and contribution to the health environment	**Partially achieved** In 2007 continued high understanding amongst NHS stakeholders of Monitor's role. Further work to ensure understanding of the full scope of Monitor's work, in particular work on non-financial performance
	Redesign and restructure the Monitor website to improve usability and so create a more effective communications tool	**Partially achieved** Scoping study completed to inform redesign during 2008-09
Ensure that all statutory communication requirements are met	Produce and publish Monitor's annual report and the consolidated accounts report on NHS foundation trusts	**Action completed**
	Maintain public register of NHS foundation trusts	**Action completed**
Develop programme of measurement of the effectiveness of communications	Undertake stakeholder research to assess perceptions and track progress	**Action completed**
	Improve analysis of communications effectiveness, developing a range of metrics to assess performance	**Partially achieved** Review of communications completed to recommend how to improve effectiveness. Regular media analysis now received

A high-performing organisation

Monitor is a high-performing organisation – the professionalism and enthusiasm of our staff are evidence of this. In our survey of stakeholders in 2007, more than eight out of ten NHS foundation trusts told us that they thought Monitor has high quality staff.

The past year has seen us build on this reputation, with high satisfaction ratings from existing staff, and increasing interest from high calibre individuals outside Monitor about joining the organisation and playing their part in the work we do.

Steady growth

As the number of NHS foundation trusts we regulate increases, over the past year we have continued to fill our substantive positions, increasing our staff numbers from 62 to 83. Our growth in staff numbers has been steady: our effective IT systems mean that we can regulate an expanded NHS foundation trust sector without requiring major increases in staff numbers.

In the last year, we have focused on growing our assessment team to ensure we can make faster progress towards an all NHS foundation trust model for the NHS.

Developing Monitor's culture

As we enter our fifth year, Monitor is maturing as an organisation. Reflecting on this, we have been looking at introducing a coaching culture at Monitor. The aim is to help us shift from a more directive management style, to a coaching management style, more appropriate for an established organisation. A coaching style of leadership and management will enable us to support and develop staff to deliver to the best of their ability and potential, ensuring they are motivated and empowered to make their own decisions and help Monitor deliver its objectives effectively.

Developing our staff

Training and development of our staff was a core activity in 2007-08. A detailed training programme was put in place. Feedback from the 2007 staff survey showed a marked improvement in this area, with eight out of ten staff being satisfied with Monitor's training and development programme, compared to only six out of ten in 2006.

“The percentage of staff rating Monitor as a very good, or good employer, has increased from 81% to 84%.”

We have also supported staff training by setting up a dedicated knowledge centre, an area designed for self-teaching and learning, to support and reinforce the knowledge and skills pertinent to roles at Monitor.

As part of our commitment to high standards of corporate governance, this year, Monitor's Board appointed external advisers to assess its own contribution to the organisation and, in particular contribution to the delivery of the *Business Plan 2007-08*, and the performance of the Executive Chairman. With guidance from the advisers, the Board will agree objectives for assessing both the performance of the Board and the Executive Chairman in 2008-09.

Staff feedback

In 2007, we repeated our survey of the views our staff. The results were excellent – our overall staff satisfaction rate had increased from 69% to 73%, and the percentage of staff rating Monitor as a very good, or good employer, had increased from 81% to 84%.

As a result of the survey, the three main areas of focus for the senior management team, over the next 6-12 months, will be:

- the performance review framework;
- developing a coaching culture; and
- improving career support.

Where possible we have tried to respond to specific requests from staff for changes that would make a positive impact on their life at work. This year we have introduced a childcare voucher scheme, a ride-to-work scheme and launched a confidential employee assistance programme.

Ensure a legally compliant organisation

Identifying and managing legal risk is key to the reputation of Monitor and to our ability to deliver our statutory functions. Just as Monitor requires NHS foundation trusts to be legally compliant, so we too must ensure that all of our operations and activities are legally sound.

During the year, Monitor was served for the first time with judicial review proceedings. The claim relates to the rules Monitor has set out in its Financial Reporting Manual on the limit to private patient income which NHS foundation trusts are permitted to generate. This is a complex area with differing views on how the law should be applied. We have asked the court to defer the proceedings until the outcome of a public consultation launched by Monitor on the interpretation, application and consequences of these differing views and a decision by Monitor's Board which will consider the responses to the consultation.

Case study

Career progression at Monitor

Monitor is committed to developing its staff, and offering opportunities for promotion and growth.

James Drury joined Monitor in January 2006 as a Senior Assessment Manager. His career at Monitor enabled him to widen his knowledge and experience of the healthcare sector. When an opportunity arose for a secondment at Northampton General Hospital NHS Trust, as Director of Finance, James says: "I was provided with valuable support and counsel from my managers at Monitor in my decision to accept the secondment and, ultimately, to accept the role permanently."

Jason Dorsett joined Monitor in July 2006 as an Assessment Manager. He previously worked in a major accounting firm and says: "The total immersion in the healthcare field provided by Monitor has taught me a huge amount." After 18 months, Jason was ready for a new challenge and spent three months on secondment to the Health Spending team at HM Treasury. He describes the experience as "a fantastic opportunity to see how Whitehall works and to have an impact on the development of government policy". Jason has now been promoted to Senior Assessment Manager.

There are opportunities for staff to develop their careers within Monitor, too.

Joining in August 2004, David Hoppe spent 18 months as an Assessment Manager and also spent some time helping to develop the Compliance Team. He felt challenged and motivated by his role: "It was a brilliant opportunity to learn about the NHS. I was given considerable autonomy to get on and deliver what was required and this gave me the confidence to apply for the role of Senior Assessment Manager, to which I was promoted in January 2006." David's career progression at Monitor continues to develop – he is now Acting Assessment Director.

> **"I was given considerable autonomy to get on and deliver what was required."**
>
> David Hoppe –
> Acting Assessment Director

A high-performing organisation

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Establish a development style of leadership and management	Building on the ongoing and new leadership and development activities to raise the standard of people management in Monitor	**Action completed**
	Developing coaching skills to enhance the performance management processes and help to create a high performing environment	**Partially achieved** All middle line managers completed training in coaching skills Coaching skills development with Senior Management Team currently ongoing
Building on The Deal	Creating a shared understanding of what The Deal means in practice and embedding it into the culture of the organisation	**Action completed** Staff and management focus group helped develop behavioural examples. The Deal and behaviour assessment incorporated into performance management training sessions held during March for all staff/managers
	Developing a simple framework of behaviours to answer the question 'what would this aspect of The Deal mean in practice?'	**Action completed** Booklet published on the intranet providing guidance on how to live 'The Deal'
Develop and introduce training and development strategy	Identify the training and development needs of the organisation and deliver the training plan to address identified needs for organisational, individual and professional development	**Action completed**
	Complete the coaching and management development programme for all line managers	**Partially achieved** All middle line managers completed training in coaching skills. Coaching skills development with Senior Management Team currently ongoing
Deliver the resourcing plan	Review current structures, staffing levels and skills for the regulatory operations, communications and central services functions, including IT support	**Action completed** Staffing structures for regulatory operations and communications reviewed. External review of central services function not carried out but some changes made to staffing structures
	Ensure Monitor has the right staff, at the right time, through the implementation of a planned recruitment programme	**Partially achieved** Formula for scaling up compliance team in relation to NHS foundation trust increase agreed and applied. All planned recruitment campaigns implemented. Some delays recruiting to regulatory operations roles pre Christmas 2007

Performance against 2007-2008 business objectives

Business objective	Actions	Outcome
Develop the Board	Implementation of Board performance measurement	**Action not completed** External advice received on how to measure Board performance to be implemented during 2008-09
	Set Board objectives and establish champions for particular work programmes	**Action completed**
Review and enhance internal communications	Undertake research among employees on internal communications and culture, through a staff survey	**Action completed**
	Identify ways of improving the internal flows of information	**Action completed**
Ensure a legally compliant organisation	Provision of legally sound advice to the Board, senior management team and all operational areas	**Action completed**
	Identification and appropriate management of all legal risks	**Action completed**
	Effective participation in all relevant senior management team policy matters	**Action completed**
Continue to improve IT services and office environment	Test and finalise business continuity plan	**Action completed**
	Integrate the Monitoring, Assessment and Reporting System (Mars) into IT framework and services	**Action completed**
	Complete IT strategy and outsource the identified requirements for IT development and support	**Partially achieved** Project for re-tendering IT services rescheduled to 08/09 to follow MARs review
	Increase office capacity to accommodate anticipated staffing levels	**Action completed**
	Ensure working environment is safe and pleasant and environmentally sustainable	**Action completed**

Looking forward

Now that the credibility of Monitor's regulatory regime and the NHS foundation trust model is clearly established, the challenge ahead is to demonstrate that NHS foundation trusts can lead service change and drive performance improvement.

2008-09 will be a significant year for the development of NHS foundation trusts and foundation trust policy. We are in sight of half of all acute and mental health care being provided by foundation trusts, while Lord Darzi's review of the NHS and potentially the development of an NHS Constitution will provide a template for both the service models and the system management arrangements for the NHS in the years ahead.

The development of World Class Commissioning offers a new focus on understanding and meeting local needs and potentially brings powerful new local incentives to develop and improve services.

The passage of the Health and Social Care Bill, with its concept of registration for NHS providers, will also have an impact on the regulation of NHS foundation trusts. Monitor and NHS foundation trusts have a real contribution to make to the development of policy in each of these areas and in demonstrating the effectiveness of a devolved healthcare system in delivering improved performance.

In building on the success we have had to date in establishing the assessment and compliance regimes for NHS foundation trusts, our focus in 2008-09 will be on:

- maintaining the quality and rigour of the assessment process while managing the scaling up of our assessment function to enable us to assess up to 80 NHS trusts a year;
- working with partners to ensure the most effective use of the *Compliance Framework*, to secure the required performance against both national requirements and commissioners' local priorities, while expanding our compliance function to allow us to regulate an increasing number of NHS foundation trusts;
- ensuring the NHS foundation trust regime effectively promotes high quality services, through relationships with commissioners, the *Compliance Framework* and effective intervention on non-financial issues;
- consulting on the implications of the introduction of International Financial Reporting Standards (IFRS) in 2009/10, with the aim of publishing an IFRS compliant *NHS Foundation Trust Financial Reporting Manual,* together with amended financial metrics in the *Compliance Framework 2009/10* and a revised *Prudential Borrowing Code,* during 2008/09;

- supporting the development of stronger boards capable of responding innovatively to the requirements of their patients and commissioners through board development, effective board appointment processes and service-line management;
- supporting the development of greater local accountability, including establishing clear roles for governors and members, and contributing to the development of any wider statement of roles and accountabilities to inform the NHS Next Stage Review and the NHS Constitution; and
- continuing to develop Monitor's organisational culture, processes and people to ensure we remain a high performing organisation and embed performance improvement throughout our organisation.

> **“…the challenge ahead is to demonstrate that NHS foundation trusts can lead service change and drive performance improvement.”**

Monitor's annual planning cycle

This diagram describes Monitor's annual planning cycle. This complements the timeline for annual planning and monitoring contained in our *Compliance Framework*.

Quarter 1

April

Publication of Monitor's *Business Plan*.

Publication of the *Compliance Framework.*

Board decision on applicant trusts.

Publication of *Annual Plan: Advice for NHS Foundation Trusts.*

May

Board decision on applicant trusts.

June

Publication of *NHS foundation trusts: report for year ended on 31 March (quarter 4).*

Board decision on applicant trusts.

Quarter 2

July

Publication of Monitor's Annual Report and Accounts.

Board decision on applicant trusts.

Publication of *Consultation of proposed amendments to the NHS Foundation Trust Financial Reporting Manual.*

August

NHS foundation trusts' annual reports published on the public register.

Publication of *NHS foundation trusts: annual plans.*

September

Publication of *NHS foundation trusts: review of three months to 30 June (quarter 1).*

Board decision on applicant trusts.

Publication of *NHS Foundation Trust Financial Reporting Manual.*

Quarter 3

October

Board decision on applicant trusts.

Publication of *NHS Foundation Trusts Review and Consolidated Accounts*.

November

Board decision on applicant trusts.

Publication of Report on the audits of NHS foundation trusts' accounts.

December

Publication of *NHS foundation trusts: review of six months to 30 September (quarter 2)*.

Publication of *Consultation on the Compliance Framework.*

Quarter 4

January

Board decision on applicant trusts.

February

Board decision on applicant trusts.

March

Publication of *NHS foundation trusts: review of nine months to 31 December (quarter 3).*

Board decision on applicant trusts.

Management commentary

These accounts reflect the operations of the Independent Regulator of NHS Foundation Trusts (Monitor). Monitor is responsible for authorising, monitoring and regulating NHS foundation trusts and was established in January 2004 under the Health and Social Care (Community Health and Standards) Act 2003. The provisions of that Act were repealed on 1 March 2007 and re-enacted on that date in a consolidating Act, the National Health Service Act 2006. Monitor is accountable to Parliament and independent of government.

In accordance with the provisions of Schedule 8 of the National Health Service Act 2006, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2008.

The Board

Dr William Moyes
(Executive Chairman)

Dr Moyes has been in post since January 2004. He was re-appointed as Monitor's Executive Chairman for a period of two years from 1 February 2008. He is also Monitor's Accounting Officer.

Dr Moyes was previously Director-General of the British Retail Consortium from 2000 to 2003 and Head of the Infrastructure Investments Department at the Bank of Scotland. He joined the British Linen Bank (a wholly-owned subsidiary of the Bank of Scotland) in 1994. Before that, he held a variety of posts in the Scottish Office, including Director of Strategy and Performance Management in the Management Executive of the NHS in Scotland. He joined the Civil Service in 1974 in the then Department of the Environment and was a member of the economic secretariat in the Cabinet Office between 1980 and 1983.

Mr Christopher Mellor
(Deputy Chairman)

After an initial three-year appointment from May 2004, Mr Mellor was re-appointed to Monitor's Board from 10 May 2007, for a period of four years. He is Chair of Monitor's Audit Committee, Remuneration Committee and Nominations Committee.

Mr Mellor is also Non-Executive Chairman of Northern Ireland Water and is Senior Independent Non-Executive Director of Grontmij UK Ltd, the consultant engineering firm. He retired as Chief Executive of Anglian Water Group plc in March 2003, after 13 years with the company. Previously he was a Non-Executive Director of Addenbrooke's NHS Trust between 1994 and 1998, where he was Chair of the Audit Committee. Chris Mellor was also a member of the Government's Advisory Committee on Business in the Environment.

Ms Jude Goffe
(Non-Executive Director)

After an initial four-year appointment from July 2004, Ms Goffe was re-appointed to Monitor's Board from 8 May 2008 for a period of four years. She is a member of Monitor's Audit and Remuneration Committees.

A venture capital and corporate advisor, Ms Goffe is also a trustee of the King's Fund. She has previously served as a Non-Executive Director of the Independent Television Commission (ITC) and a Non-Executive Director of Moorfields Eye Hospital Trust from 1994-2004. Ms Goffe also chaired the Trust's Audit and Commercial Services Committees and was a member of its Remuneration Committee. Between 1984 and 1991 she was employed by the 3i Group plc in a number of investment roles, culminating in the position of Investment Director. Ms Goffe is a chartered accountant by profession.

Mr Stephen Thornton
(Non-Executive Director)

Stephen Thornton joined Monitor on 1 October 2006 and has been appointed for three years.

Stephen Thornton is Chief Executive of The Health Foundation, which is an independent healthcare charitable foundation working to improve the quality of healthcare in the UK.

He has held various senior executive NHS management and Board positions over the last 15 years. He was Chief Executive of Cambridge & Huntingdon Health Authority from 1993 to 1997, and Chief Executive of the NHS Confederation from 1997 to 2001. He was a Commissioner on the Board of the Healthcare Commission from February 2004 until July 2006.

Baroness Elaine Murphy
(Non-Executive Director)

Baroness Murphy joined Monitor on 1 July 2006 and has been appointed for four years.

Baroness Elaine Murphy is a clinician by background and was Professor of Old Age Psychiatry at UMDS Guy's and St Thomas' Hospitals 1983 to 1996. At the time she also held an NHS general management position. Over the last 12 years she has held a wide range of executive/ non-executive board positions covering a wide range of areas including the voluntary sector and the Mental Health Act Commission. She was Chair of the North East London Strategic Health Authority until 30 June 2006. She is also Chair of St George's Medical School and sits in the House of Lords as a crossbencher.

The Senior Management Team

Dr William Moyes
(Executive Chairman)

In his role with the Senior Management Team, Bill is ultimately responsible for the delivery of the agreed Business Plan within the budget allocated by the Department of Health, and for ensuring that Monitor's governance standards and processes are not breached. His role is primarily to ensure Monitor's business processes and internal management conform to the policies and standards set by the Board.

Stephen Hay
(Chief Operating Officer)

Stephen is responsible for the regulatory operations of Monitor. This covers the assessment and authorisation of applicants for foundation trust status, monitoring the compliance of authorised NHS foundation trusts and managing intervention, where required.

Adrian Masters
(Director of Strategy)

Adrian's role is to ensure that Monitor develops a regulatory policy that enables foundation trusts to innovate and deliver better healthcare for patients. This includes contributing to those areas of wider healthcare reform which impact on foundation trust performance.

Kate Moore
(Director of Legal Services)

Kate provides legal advice to the Board and the Senior Management Team on delivering Monitor's functions within the powers laid down in the National Health Service Act 2006. This includes providing input into the legal aspects of the application, monitoring and intervention processes. She is also responsible for the Board Secretariat which supports the work of the Board and its committees.

Janet Polson
(Director of Human Resources and Corporate Services)

Janet is responsible for providing a comprehensive human resources function within Monitor. This includes HR operations, resourcing, organisational development and people development. Janet advises the Senior Management Team on adopting best HR policies and practices. She is also responsible for IT services and overseeing the provision of the back-office corporate support services.

Rebecca Gray
(Director of Public Affairs and Communications)

Rebecca is responsible for communicating with our stakeholders, including Parliament, Government, patients, the public and the media. She is also responsible for internal communications within Monitor, brand management, publications and Monitor's website.

Management report

Employment

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

Pension liabilities

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

Health and safety

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

Statement of payment practices

Unless the amounts charged are considered to be incorrect, Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2008. During this financial year, 91% of invoices were paid within 30 days of the invoice date. Exceptions generally occurred because of disputes or delays in the receipt of invoices.

Register of interests

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

Audit

The auditor of Monitor is the Comptroller and Auditor General. Details of the audit fee for the year ended 31 March 2008 are disclosed in Note 3 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts for the year ended 31 March 2008.

Accounting Officer's disclosure to the Auditors

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

Financial position

Monitor's net expenditure for the year was £12,908,000 (2006-07: £13,433,000). Staff costs represent 51% of total expenditure at £6,539,000 (2006-07: £6,274,000). Other operating costs include property, consulting and office expenses.

Grant-in-aid of £13,500,000 was received during the year of which £123,000 was applied to the purchase of fixed assets.

Net assets at 31 March 2008 were £2,222,000 (31 March 2007: 1,524,000).

A comprehensive review of Monitor's activities during the year and its plans for the future are set out on pages 4 to 55 of this report.

Governance disclosure

Introduction

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

Board of Monitor

Board composition

Currently, the Board has five members: the Executive Chairman and four non-executive directors. This is determined by the relevant provisions of the National Health Service Act 2006. No individual or group of individuals dominates the Board's decision making. Collectively, the non-executive directors bring a valuable range of experience and expertise as they all currently occupy, or have occupied, senior positions in the healthcare sector, in industry and public life.

While the members of Monitor's Senior Management Team other than the Executive Chairman are not members of the Board, they attend Board meetings as a matter of routine and make presentations on the results and strategies of their respective directorates.

The role of the Board

The Board has responsibility for the overall management and performance of the organisation and the approval of its long-term objectives. It is responsible for ensuring that any necessary corrective action is taken promptly to ensure our objectives are met.

The Executive Chairman

Dr William Moyes is our Executive Chairman. The Board has agreed that he will be separately appraised on the Chairman and Chief Executive elements of his role.

As Chairman of the Board, his role is to:

1. lead the Board;
2. ensure that it has the information and advice needed to discharge its statutory duties;
3. ensure that the Board adheres to high standards of corporate governance; and
4. be the public face of Monitor, leading its influencing and public activities.

In his role as Chief Executive, he is ultimately responsible for the delivery of the agreed Business Plan within the budget allocated by the Department of Health, and for ensuring that Monitor's governance standards and processes are not breached. His role is primarily to ensure that Monitor's business processes and internal management conform to the policies and standards set by the Board.

The Board did not conduct a formal appraisal of the Chairman and Chief Executive elements of the Executive Chairman's role during the year. In tandem with the formal performance evaluation process of the Board and the Executive Chairman explained further below (see page 69) and now underway, the Board will conduct such an appraisal early in the 2008-09 financial year. The appraisal will be led by the Deputy Chairman and Senior Independent Director.

The non-executive directors

Independence

All of the non-executive directors are independent of management and have no cross-directorships or significant links which could materially interfere with the exercise of their independent judgements.

Arrangements for the handling of any possible conflicts of interest are set out in Monitor's *Rules of Procedure*.

Terms of appointment

Christopher Mellor and Stephen Thornton were each appointed for an initial term of three years. Jude Goffe and Elaine Murphy were both appointed for an initial term of four years. Thereafter, subject to satisfactory performance, and with the agreement of the Secretary of State for Health, they may be re-appointed for a further period of up to four years.

Christopher Mellor, whose term of office expired on 9 May 2007, was appointed by the Secretary of State for Health for a further four-year term from 10 May 2007.

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

Deputy Chairman and Senior Independent Director

Christopher Mellor is our Deputy Chairman and Senior Independent Director. He is also the Senior Information Reporting Officer in accordance with Cabinet Office guidance.

As Chairman of the Audit and Remuneration Committees, he is responsible for ensuring that Monitor's governance and processes are as compliant as possible with the *Combined Code on Corporate Governance* and with relevant requirements of Parliament and Government.

As Monitor's Senior Independent Director, his principal responsibilities are to:

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

Meetings of non-executive directors

The non-executive directors meet separately (without the Chairman being present) at least twice a year, principally to appraise the Chairman's performance. During 2007/08, they held one meeting, which was chaired by Christopher Mellor in his capacity as Monitor's Deputy Chairman and Senior Independent Director.

How the Board operates

Monitor was established by 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 consolidated act, the National Health Service Act 2006 (the Act).

In exercise of the powers under paragraph 6(1) of Schedule 7 to the Act, Monitor made the *Rules of Procedure* to establish a Board and to regulate its procedure and that of its committees. The *Rules of Procedure* were published on Monitor's website in November 2006.

Governance disclosure

Reserved and delegated authorities

The Board has a formal schedule of matters reserved to it for decision (Annex C to Monitor's *Rules of Procedure*). It includes:

1. definition of Monitor's strategic objectives;
2. approval of Monitor's Corporate and Business Plans;
3. approval of all significant expenditure (>£500K);
4. approval of Monitor's policies and procedures for the management of risk;
5. approval of variations to, and development of, Monitor's *Compliance Framework*;
6. decisions on applications for NHS foundation trust status;
7. approval of the use of Monitor's statutory powers of intervention; and
8. approval of the Prudential Borrowing Code for NHS foundation trusts.

Information flow

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

Independent professional advice

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

Board members are circulated with sufficient information to ensure that they are kept fully informed on issues arising which affect Monitor.

In response to the proceedings for Judicial Review lodged by Unison, a trade union, in February 2008 over the interpretation of section 44 of the Act which concerns private health care, Monitor engaged the services of KPMG, accountants and Denton Wilde Sapte, solicitors. These advisers were appointed following EU compliant procurement processes.

Secretary to the Board

The Secretary to the Board is responsible for:

1. advising the Board on all corporate governance matters;
2. ensuring that Board procedures are followed;
3. ensuring good information flow between the Board and its Committees;
4. facilitating induction programmes for non-executive directors;
5. Monitor's risk management and performance reporting processes;[1]
6. managing the day-to-day relationship with Monitor's internal auditors; and
7. dealing with Parliamentary business concerning Monitor.[2]

1. Until October 2007; thereafter the responsibility of the Strategy Directorate
2. Until October 2007; thereafter the responsibility of the Communications Directorate

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

Board meetings and attendance

The attendance of the Executive Chairman and individual non-executive directors at Board and Committee meetings during 2007/08 was as follows:

	Board (11)	Audit (4)	Remuneration (1)	Nomination (-)
William Moyes	11*	3	1	-
Christopher Mellor	11	4*	1*	-
Jude Goffe	9	4	1	
Baroness Murphy	10			
Stephen Thornton CBE	10			

* Indicates chairman of Board/Committee

Board effectiveness

Induction

On joining the Board, non-executive directors are given background information describing Monitor and its activities. Meetings with leaders of the core business areas are also arranged. There have been no new appointments to the Board in the 2007/08 financial year.

Performance evaluation

Board evaluation has continued on an annual basis and is undertaken by a combination of internal processes and advice from external consultants.

Following the two stage evaluation process of its performance in 2006/07 with the assistance of external advisers, the Board continued to assess its performance via internal processes during the year. The Board decided during the year to appoint external advisers to assess its overall contribution, in particular, to the delivery of last year's Business Plan, and also the performance of the Executive Chairman. With guidance from the advisers, the Board will also agree objectives for assessing both the performance of the Board and the Executive Chairman in 2008/09. The outcome will be reported in next year's annual report.

Board Committees

The terms of reference of all the Committees are reviewed on a regular basis by the Secretary to the Board and by the Board as appropriate. The Secretary to the Board will review the Rules of Procedure in full in 2008/09.

Governance disclosure

Audit Committee

Members: Christopher Mellor (Chairman), Jude Goffe

The Committee consists solely of independent non-executive directors, both of whom have extensive financial experience in large organisations. Both members held office throughout the year and at the date of this report.

At the invitation of the Committee, the Executive Chairman (in his capacity as Monitor's Accounting Officer), Chief Operating Officer, Director of Strategy, Finance and Procurement Manager, Head of Internal Audit (KPMG) and the external auditor (NAO) attend meetings.

The Secretary to the Board attends and is Secretary to the Committee. The Committee met four times in the 2007/08 financial year. There have been no occasions on which either the internal auditors or external auditors have requested a private session with the Committee. All non-executive directors have access to the minutes of all the Committee's meetings.

Key duties of the Committee included:

1. appointment and management of the relationship with the internal auditors;
2. commissioning and receipt of reports from the internal auditors on the adequacy of Monitor's internal control systems; and
3. consideration of all relevant reports from The Comptroller and Auditor General, Monitor's external auditor, including reports on Monitor's accounts, achievement of value for money and the responses to any management letters issued by them.

For the 2007/08 financial year, the internal auditors undertook the following reviews as part of the plan approved by the Audit Committee:

(a) Assessment, compliance and intervention

(b) Organisational Development and Team Management

(c) IT: MARS project

(d) Financial systems and controls

(e) Corporate Governance

(f) Gifts and hospitality

In November 2007, the contract for internal audit services was formally tendered for the 2008/09 financial year and successive financial years. Following an EU compliant procurement process, KPMG were re-appointed for a three year period, with a possibility of up to two one-year extensions.

Nomination Committee

Members: Christopher Mellor (Chairman), William Moyes

The Director of Human Resources and Corporate Services normally attends meetings at the invitation of the Committee.

Upon notification of a forthcoming vacancy, the Committee's role is to identify and make recommendations to the Secretary of State for Health on the appointment of non-executive directors to Monitor's Board.

As noted earlier, Chris Mellor was appointed for a further four-year term from 10 May 2007.

Remuneration Committee

Members: Christopher Mellor (Chairman), Jude Goffe, William Moyes, Stephen Hay (Chief Operating Officer), Janet Polson (Director of Human Resources and Corporate Services)

Details of the Remuneration Committee and its policies, together with the Director's remuneration and emoluments are set on pages 74 to 76.

Executive Committees

The Senior Management Team met twice a month from April 2007 to March 2008 (excepting August 2007) as a Management and a Strategy Committee.

In July 2007, Monitor established a Compliance Committee with SMT membership and agreed terms of reference which also meets on a monthly basis.

The Operations Group established in 2006 was disbanded on the establishment of the Compliance Committee.

Executive Committee meetings and attendance

The attendance of Senior Management Team members at Executive Committee meetings during 2007/08, together with their attendance at Monitor Board and Committee meetings was as follows:

	Board Max (11)	Audit Max (4)	Remuneration Max (1)	Nomination (-)	Management Max (12)	Strategy Max (14)	Compliance Max (8)
Dr William Moyes	11	3	1		3 (of 3)	13	7
Stephen Hay	10	4	1		12	12	7
Adrian Masters	9	2			11	13	6
Kate Moore	11	2 (of 2)	1		11	14	
Janet Polson			1		11		
Rebecca Gray	6 (of 7)				8 (of 8)	7 (of 7)	8

Governance disclosure

External directorships for Senior Management Team members

Subject to certain conditions, and unless otherwise determined by the Board, Senior Management Team members are permitted to accept one appointment as a non-executive director.

Until 31 December 2007, Monitor's Executive Chairman acted as a member of the Council and Chairman of the Audit Committee of a university. This position was unpaid and was declared by the Executive Chairman as part of his entry in Monitor's Register of Interests. Since 1 January 2008, the Executive Chairman has been a member of the advisory group of the Vice Chancellor of that university.

In August 2007, Kate Moore was appointed Chair of Governors at a primary school. The position is unpaid.

In January 2008, Rebecca Gray was appointed a director of a charitable community nursery. The position is unpaid.

Relations with stakeholders

Stakeholder engagement

Monitor meets key stakeholders on a regular basis to discuss matters relating to NHS foundation trust policy and broader questions on health reform. Monitor is usually represented by the Executive Chairman, Director of Strategy and Chief Operating Officer.

During 2007/08, regular meetings had been held with a number of organisations and individuals, including ministers, special advisers and senior officials from the Department of Health, the Foundation Trust Network, Chairs, Chief Executives and Finance Directors of NHS foundation trusts, the Healthcare Commission and the Audit Commission, and the National Audit Office.

In addition, the Board of Monitor regularly holds lunches with key stakeholders on the day of its meetings. Attendees in 2007/08 included:

- Pelham Allen, Turnaround Expert
- Mark Britnell, Director General for Commissioning and System Management, Department of Health
- Ruth Carnall CBE, Chief Executive NHS London
- Richard Douglas CB, Director of Finance and Investment, Department of Health
- David Flory, Director General of NHS Finance, Performance and Operations, Department of Health
- Dame Gillian Morgan, Chief Executive NHS Confederation
- David Nicholson CBE, NHS Chief Executive

Monitor's website

Our website, www.monitor-nhsft.gov.uk, is a primary source of information on Monitor. The site includes an archive of publications, including information on NHS foundation trust financial performance, as well as detailed information on our corporate practices.

Stakeholders who register for the service can receive a notification when any news releases are made, or can sign up to receive a regular e-newsletter. There is also an e-mail facility to contact us.

NHS Foundation Trust Code of Governance

Monitor published the *NHS Foundation Trust Code of Governance* in October 2006. The code is designed to assist NHS foundation trusts in improving their governance by bringing together the best practice of both public and private sector governance.

The requirement for NHS foundation trusts to disclose their compliance (or otherwise) with the provisions of the code in their respective statutory annual reports came into force for the 2007/08 financial year. Monitor is committed to conduct a review of the process in 2008/09 after the first full year of the Code's application.

Monitor has complied with the main principles of the code during the period 1 April 2007 to 31 March 2008, except for:

A.2.1	*The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the Board.* William Moyes was first appointed as Executive Chairman by the Secretary of State for Health in December 2003. Commencing 1 February 2008, Dr Moyes was re-appointed for a term of two years. The Board has however agreed separate objectives for the Chairman and Chief Executive elements of his role and will assess these accordingly.
C.2.1	*All other Executive Directors should be appointed by a committee of the chief executive, the chairman and non-executive directors and to re-appointment at intervals of no more than five years.* Given the statutory composition of Monitor's Board, appointments to Senior Management Team level are a matter for the Chairman, having consulted with the Board as appropriate. There is no statutory provision for Executive Directors at Monitor.
E.2.1	*The board of directors must establish a remuneration committee composed of non-executive directors which should include at least three independent non-executive directors.* Given the statutory composition of Monitor's Board, Monitor's Remuneration Committee comprises two independent non-executive directors.
F.3.1	*The board must establish an audit committee composed of non-executive directors which should include at least three independent non-executive directors.* Given the statutory composition of Monitor's Board, Monitor's Audit Committee comprises two independent non-executive directors.

Remuneration report

Remuneration policy

The remuneration of Monitor employees is set by the Remuneration Committee. The Committee also makes recommendations to the Secretary of State for Health on the remuneration arrangements of the Executive Chairman. Membership of this Committee comprises of the Executive Chairman, Deputy Chairman, a non-executive director, the Chief Operating Officer, Director of Human Resources and Corporate Services and other members as from time to time agreed by the Chairman of the Committee. Other non-executive directors may attend by invitation.

No member is involved in any decisions or discussion as to their own remuneration. In reaching its recommendations, the Committee has regard for the following considerations:

- The need to recruit, retain and motivate suitably able and qualified staff;
- The funds available from the Department of Health; and
- The requirement to deliver performance targets.

Service contracts

Appointments are made on merit on the basis of fair and open competition. Unless otherwise stated, the senior management covered by this report hold appointments which are open ended.

On 1 February 2008 William Moyes was reappointed on a two year contract.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's senior management team. These figures have been audited. Senior managers are salaried and are entitled to annual pay progression subject to individual performance against objectives. Last year's performance pay increase ranged from 0% to 8%.

Executive directors	2007-08 Salary £'000	2006-07 Salary £'000
William Moyes Executive Chairman	215-220	205-210
Stephen Hay Chief Operating Officer	160-165	150-155
Adrian Masters Director of Strategy	125-130	115-120
Katharine Moore Director of Legal Services	110-115	95-100
Stephen Humphreys Director of Communications (21 June 2004 – 26 April 2007)	5-10 (80-85 full year equivalent)	80-85
Nick Gammage Interim Director of Communications (Interim appointment 16 April 2007 – 10 August 2007)	35-40 (115-120 full year equivalent)	-
Rebecca Gray Director of Public Affairs and Communications (Substantive appointment from 27 July 2007)	40-45 (85-90 full time, full year equivalent)	-
Janet Polson Director of HR & Corporate Services	80-85	80-85

Non-executive directors	2007-08 Remuneration £'000	2006-07 Remuneration £'000
Christopher Mellor	20-25	25-30
Jude Goffe	15-20	20-25
Elaine Murphy	15-20	10-15
Stephen Thornton	15-20	5-10

None of the above received benefits-in-kind.

Pension benefits	Accrued pension at age 60 as at 31/03/08 and related lump sum £000's	Real increase in pension and related lump sum at age 60 £000's	CETV at 31/03/07 £000's	CETV at 31/03/08 £000's	Real increase in CETV £000's
William Moyes Executive Chairman	60-62.5	2.5-5	1,053	1,260	62
Stephen Hay Chief Operating Officer	7.5-10	2.5-5	74	125	34
Adrian Masters Director of Strategy	7.5-10	0-2.5	85	124	20
Katharine Moore Director of Legal Services	5-7.5	0-2.5	55	95	27
Stephen Humphreys Director of Communications	2.5-5.0	0-2.5	45	43	1
Rebecca Gray Director of Public Affairs and Communications	0-2.5	0-2.5	-	9	7
Janet Polson Director of HR and Corporate Services	30-32.5	0-2.5	419	512	25

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. Existing staff may be in one of four defined benefit schemes; either a 'final salary scheme' (Classic, Premium, and Classic Plus) or a 'whole career scheme' (Nuvos). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Price Index. Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a variation of Premium but with benefits in respect

Remuneration report

of service before 1 October 2002 calculated broadly in the same way as Classic. The Nuvos scheme was introduced on 30 July 2007 for all new staff unless they are already members of or eligible to rejoin the other schemes. Members of Nuvos build up pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued to their previous scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

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

Dr William Moyes
Executive Chairman
11 July 2008

Statement of Accounting Officer's responsibilities

Under the Health and Social Care (Community Health and Standards) Act 2003, the Accounting Officer is required to prepare accounts for each financial year. The Secretary of State directs that these accounts present a true and fair view of Monitor's income and expenditure and cash flows for the financial year, and to the state of affairs at the year end. In preparing the accounts, the Accounting Officer is required to:

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

The Accounting Officer for the Department of Health has appointed the Executive Chairman as the Accounting Officer for Monitor. His relevant responsibilities, as Accounting Officer, including his responsibility for the propriety and regularity of the public finances, for the keeping of proper records and the safeguarding of Monitor's assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in *Managing Public Money*.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Monitor's policies, aims and objectives. These are set out in the National Health Service Act 2006 and Monitor's Corporate Plan 2006-09. In doing so, I must safeguard the public funds and assets in accordance with the responsibilities assigned to me in *Managing Public Money for 2007/08* and the Accounts Direction from the Department of Health dated 14 June 2007.

The purpose of the system of internal control

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

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

The system of internal control has been in place in Monitor for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Risk and control framework

Corporate governance and risk management arrangements in Monitor are summarised in the corporate governance disclosure on pages 66-73 of Monitor's Annual Report and are set out in full in Monitor's Rules of Procedure, which was published on Monitor's website in November 2006.

Capacity to handle risk

Monitor's policy on risk management clearly defines the role and responsibilities of key managers and committees within the governance structure enabling leadership to be given to Monitor's approach to risk management. This includes the role of the Board, Audit Committee and other groups including the SMT. The SMT meets regularly as, Management, Compliance and Strategy Committees to identify, inform and manage key issues facing the organisation and the corresponding risks. This approach ensures that members of staff at all levels are aware of the importance of risk management and that appropriate actions are being taken to manage risk.

Monitor has an established risk reporting framework. The risk register is updated quarterly through a programme of internal control meetings with senior managers. The risk register is reported and discussed at quarterly Strategy Committee and Board meetings. Through the development of the Corporate Plan 2009-2012, we will review the process we use to identify and manage risk.

In addition, on the management of information risk, the following steps have been undertaken:

- a risk assessment in relation to the loss of and unauthorised use of information;
- a review of the procedures in place to secure confidential information (including personal data) held by Monitor; and
- identification of process measures to manage information risk and protect personal information.

Over the next financial year, and with the appointment in December 2007 of a Head of IT with specific responsibilities with regard to data handling requirements, Monitor will continue to work towards ensuring that sufficient processes and controls are in place and communicated within the organisation.

Review of effectiveness

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

As the Independent Regulator of NHS foundation trusts, it is of paramount importance for Monitor to be able to demonstrate that risk management processes are in place and operating efficiently.

KPMG, the internal auditors, were asked to continue to focus their efforts in this area and, with their assistance, Monitor continues to enhance its internal controls environment above and beyond the minimum levels required. Management continues to ensure that appropriate and relevant controls are embedded in all areas of Monitor's work.

Internal audit work covering compliance and intervention processes continues to provide me with adequate assurance that effective controls are either in place or being developed to a higher degree of sophistication. This is particularly important given the ongoing shift in emphasis in our work from assessment to compliance over the coming years.

During the year, Monitor's Board has maintained strategic oversight and review of internal control and risk management arrangements through regular reports by directors on their areas of responsibility and through specific papers for discussion at Board meetings.

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

- individual internal audit reports and management responses;
- progress on implementation of previous audit recommendations;
- the internal auditors' annual report and opinion on the adequacy of our internal control system;
- NAO audit reports and recommendations; and
- development of Monitor's approach to risk management.

Statement on internal control

Advice on the implications of the result of the 2007-08 review of the effectiveness of the system of internal control has been provided to the Accounting Officer by the Audit Committee incorporating a report from internal audit on the adequacy of risk management, control and governance processes in place during the year to manage the achievement of Monitor's objectives.

MARS, Monitor's bespoke IT and document management system, was put into operation in the 2007/08 financial year. The MARS system is currently being reviewed, the result of which may identify further efficiency gains in the assessment and compliance processes.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems.

Dr William Moyes
Executive Chairman
11 July 2008

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Independent Regulator of NHS Foundation Trusts (Monitor) for the year ended 31 March 2008 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Executive Chairman as Accounting Officer is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited 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 and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State. I report to you whether, in my opinion, the information, which comprises the Management Commentary, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Monitor's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of Monitor's corporate governance procedures or its risk and control procedures.

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

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Basis of audit opinions

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, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Monitor's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State, of the state of Monitor's affairs as at 31 March 2008 and of its total net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State; and
- information, which comprises the Management Commentary, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

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

14 July 2008

Accounts and notes

Operating cost statement

For the year ended 31 March 2008

	Note	2007-08 £000's	2007-08 £000's	*Restated 2006-07 £000's*	*Restated 2006-07 £000's*
Expenditure					
Staff costs	2	(6,539)		*(6,274)*	
Other operating expenditure	3	(6,437)		*(8,095)*	
Total expenditure			**(12,976)**		***(14,369)***
Miscellaneous income	4		63		*933*
Net expenditure on ordinary activities before interest			**(12,913)**		***(13,436)***
Interest receivable			5		*3*
Notional cost of capital			50		*71*
Net expenditure on ordinary activities			**(12,858)**		***(13,362)***
Reversal of notional cost of capital			(50)		*(71)*
Net expenditure for the financial year			**(12,908)**		***(13,433)***

All operations are continuing.

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

The Operating Cost Statement for 2006-07 has been restated to reflect the impact of notional cost of capital.

The notes on pages 86 to 95 form part of these accounts.

Accounts and notes

Balance sheet

As at 31 March 2008

	Note	31/03/08 £000's	31/03/08 £000's	31/03/07 £000's	31/03/07 £000's
Fixed assets					
Intangible assets	5		90		248
Tangible fixed assets	5		970		1,189
Total fixed assets			**1,060**		**1,437**
Current assets					
Debtors falling due within one year	6	337		691	
Cash at bank and in hand	7	3,191		4,016	
Current liabilities					
Creditors: Amounts falling due within one year	8	(1,840)		(4,168)	
Net Current Assets			1,688		539
Total assets less current liabilities			**2,748**		**1,976**
Creditors: Amounts falling due after one year	9		(308)		(367)
Provisions	10		(218)		(85)
Net assets			**2,222**		**1,524**
General reserve	**11**		**2,222**		**1,524**

The notes on pages 86 to 95 form part of these accounts.

Dr William Moyes
Executive Chairman
11 July 2008

Cash flow statement

For the year ended 31 March 2008

	Note	2007-08 £000's	2006-07 £000's
Net cash flow from operating activities	13	(14,217)	(11,850)
Returns on investments and servicing of finance			
Interest received		5	3
Capital expenditure			
Payments to acquire tangible fixed assets	6	(103)	(192)
Payments to acquire intangible fixed assets	6	(10)	0
Receipts from the disposal of tangible fixed assets		0	4
Financing			
Grant-in-aid received		13,500	12,324
(Decrease)/increase in cash at bank and in hand		**(825)**	**289**

The notes on pages 86 to 95 form part of these accounts.

Notes to the accounts

1. Accounting policies

Accounting convention

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by Monitor are described below.

They have been consistently applied in dealing with items considered material in relation to the accounts.

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

Tangible and intangible fixed assets

The Government Financial Reporting Manual permits revaluation of tangible and intangible fixed assets to their value to the business at current costs. Monitor has determined that current value is not materially different from historical cost and has therefore chosen to value tangible and intangible fixed asset at historic cost, as permitted by the Government Financial Reporting Manual.

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

Tangible fixed assets comprise IT hardware, furniture, fixtures and office equipment and leasehold improvements which individually or grouped cost more than £5,000. Assets of the same or similar type acquired around the same time, or assets which are purchased at the same time and are to be used together are grouped together as if they were individual assets.

All fixed assets have been funded by Government grant in aid.

Depreciation

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

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

Cost of capital charge

Monitor is subject to a notional charge for the cost of Government funded capital employed during the year. The charge is calculated at 3.5% of average net assets for the year, excluding cash balances held at the Office of the Paymaster General which do not attract interest.

For the year ended 31 March 2008 the average capital employed was negative so, in accordance with the Government's Financial Reporting Manual, the notional cost of capital has been recorded as a credit in the Operating Cost Statement.

Operating leases

Operating leases are charged to the operating costs on a straight line basis over the lease term.

Pensions

Monitor participates in the Principal Civil Service Scheme.

Although the scheme is unfunded, Monitor contributes annual premiums and retains no further liability except in the case of employees who take early retirement. The pension payments for the period are charged to operating expenditure. Details are included in Note 14 to the Accounts.

Value Added Tax

Monitor is not registered for VAT so all other expenditure in these financial statements includes VAT incurred.

2. Staff costs

a) Staff costs comprise the following

	2007-08 £000's	*2006-07 £000's*
Salaries and Wages	4,482	*3,741*
Social Security Costs	452	*389*
Employer's Pension Costs	1,035	*877*
Total cost of staff employed	**5,969**	***5,007***
Agency, seconded, temporary and interim	570	*1,267*
Total cost of staff	**6,539**	***6,274***

b) The average number of whole time equivalent employees during the year was as follows:

As at 31 March 2008, there were 83 full time employees (1 April 2007: 62), 77 of whom are members of the Principal Civil Service Pension Scheme and six of whom are members of the Partnership Civil Service Pension Scheme.

Monitor engaged staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2008 there were 5 staff working at Monitor on this basis.

The average number of whole-time equivalent employees, including the Executive Chairman, during the year ended 31 March 2008 was 70 (2006-07: 59). The average number of whole-time equivalent agency, secondment, temporary and interim staff was 8 (2006-07: 10).

Notes to the accounts

3. Other operating expenditure

	2007-08 £000's	Restated 2006-07 £000's
Property expenses	723	*605*
Office expenses	1,829	*1,256*
Consulting services	1,947	*3,510*
Audit fee for Monitor	25	*25*
Audit fee for consolidated accounts	53	*53*
Other professional fees	550	*1,631*
Depreciation	332	*232*
Amortisation	168	*181*
Charge to provisions	133	*0*
General expenses	677	*602*
Total other operating costs	**6,437**	***8,095***

The audit fee represents the cost of the audits of the financial statements carried out by the Comptroller and Auditor General.

4. Miscellaneous income

	2007-08 £000's	*2006-07 £000's*
Funding received for the Whole Health Community Diagnostic Programme	0	*480*
Funding received for the Mental Health Diagnostic Programme	0	*361*
Other	63	*92*
Total miscellaneous income	**63**	***933***

5. Fixed assets

Intangible assets	Software Licences £000's
Cost or valuation	
As at 1 April 2007	544
Additions	10
At 31 March 2008	**554**
Amortisation	
As at 1 April 2007	296
Charge for year	168
As at 31 March 2008	**464**
Net book value at 31 March 2007	248
Net book value at 31 March 2008	**90**

Tangible assets	IT equipment £000's	Furniture, fixtures and office equipment £000's	Leasehold improve-ments £000's	Total £000's
Cost or valuation				
As at 1 April 2007	729	345	644	1,718
Additions	37	50	26	113
At 31 March 2008	**766**	**395**	**670**	**1,831**
Depreciation				
As at 1 April 2007	183	165	181	529
Charge for year	197	71	64	332
As at 31 March 2008	**380**	**236**	**245**	**861**
Net book value at 31 March 2007	546	180	463	1,189
Net book value at 31 March 2008	**386**	**159**	**425**	**970**

Notes to the accounts

6. Debtors – amounts falling due within one year

	31/03/08 £000's	*31/03/07 £000's*
Prepayments	320	*207*
Other debtors	17	*484*
	337	***691***

6a. Debtors – intra Government balances

	31/03/08 £000's	*31/03/07 £000's*
Balances with Central Government bodies	0	*484*
Balances with Local Government bodies	131	*0*
Balances with bodies external to Government	206	*207*
	337	***691***

7. Cash at bank and in hand

	31/03/08 £000's	*31/03/07 £000's*
Account held with Paymaster General	3,034	*3,561*
Account held with HSBC	155	*453*
Petty cash	2	*2*
	3,191	***4,016***

8. Creditors – amounts falling due within one year

	31/03/08 £000's	*31/03/07 £000's*
Trade creditors	321	*1,177*
Tax & NIC	167	*0*
Pensions payable	116	*0*
VAT payable	0	*12*
Fixed asset creditor	10	*0*
Liability relating to rent free period	59	*59*
Other accruals	1,167	*2,814*
Deferred income	0	*106*
	1,840	***4,168***

In 2005-06 £1,027k of grant in aid income was deferred due to the delay of an IT project. At 31 March 2007 £106k of deferred income was carried forward as the project was not complete. This is not consistent with the current treatment of grant in aid as funding rather than income.

To eliminate this inconsistency, in 2007-08, the remaining deferred income balance was transferred to reserves.

8a. Creditors – intra Government balances

	31/03/08 £000's	*31/03/07 £000's*
Balances with Central Government bodies	283	1,344
Balances with bodies external to Government	1,547	2,824
	1,830	**4,168**

9. Creditors – amounts falling after one year

	31/03/08 £000's	*31/03/07 £000's*
Liability relating to rent-free period	**308**	**367**

Notes to the accounts

10. Provisions

	Litigation £000's	Dilapidation £000's	Total £000's
Provision as at 1st April 2007	0	85	85
Charge for the year	100	33	133
Provision as at 31st March 2008	**100**	**118**	**218**

Alterations were made to Monitor's premises during the year resulting in an adjustment to the dilapidation provision.

The provision for litigation has been made to cover anticipated costs relating to the legal challenge to Monitor's interpretation of the private patient income cap. The Monitor Board estimates the full potential cost which could be incurred in respect of the PPI consultation and litigation to be in the region of £500,000 to £600,000. The accounts for 2007/08 include £220,000 of costs within accruals and provisions. It is therefore estimated that a further £280,000 to £380,000 may have to be accounted for in 2008/09 depending on the outcome of the consultation process and court case.

As at 11 July 2008 Monitor had incurred a total of £272,000 in respect of the consultation and litigation.

Under a memorandum of understanding, dated August 2004, between Monitor and the Department of Health, the Department of Health accepts that unforeseen circumstances may arise during a financial year in consequence of which Monitor will legitimately require additional resource and it undertakes to provide those resources at the level necessary for Monitor effectively to discharge its statutory duties. An example given of such unforeseen circumstances is where a decision by Monitor is subject to judicial review proceedings in the High Court.

11. Movement on reserves 2007-08

	General Reserve £000's
At 1 April 2007	**1,524**
Net expenditure	(12,908)
Grant-in-Aid received towards revenue expenditure	13,377
Grant-in-Aid received towards purchase of fixed assets	123
Grant-in-Aid transferred from deferred income	106
At 31 March 2008	**2,222**

12. Reconciliation of net operating expenditure to net outflow from operating activities

	2007-08 £000's	2006-07 £000's
Net expenditure on ordinary activities before interest	(12,913)	(13,436)
Adjustments for non-cash items		
Increase in provision	133	0
Depreciation charge	332	232
Amortisation charge	168	181
Release of long term rent accrual	(59)	(59)
Loss on disposal of fixed asset	0	3
Adjustments for movements on working capital		
(Increase)/decrease in debtors falling due within one year	354	(378)
Increase/(decrease) in creditors falling due within one year	(2,232)	1,607
Net cash outflow from operating activities	**(14,217)**	**(11,850)**

13. Operating leases

Commitments under operating leases to pay rentals during the year following these accounts are given in the table below, analysed according to the period in which the lease expires.

	31/03/08 £000's	31/03/07 £000's
One year	0	0
2-5 years	0	0
After more than 5 years	417	417

Notes to the accounts

14. Pension scheme

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

For 2007-08, employer's contributions of £999,532 were payable to the PCSPS (2006-07: £847,625) at one of four rates in the range 17.1 and 25.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. In 2008-09, the salary bands will be revised but the rates will remain in the range between 17.1 and 25.5 per cent of pensionable pay.

The contribution rates are set to meet the cost of benefits accruing during 2007-08 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £33,394 (2006-07: £27,642) were paid into one or more of a panel of three appointed stakeholder pension providers.

Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,883, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £115,878.

15. Capital commitments

There were no capital commitments at 31 March 2008 that require disclosure.

16. Related parties

Monitor is a Non-Departmental Public Body sponsored by the Department of Health which is regarded as a related party. Amounts owing from and to the Department of Health are reflected in debtors and creditors respectively. During the year no board members, members of the senior management or other related parties have undertaken any material transactions with Monitor.

17. Financial instruments

Financial Reporting Standard 13, Derivatives and Other Financial Instruments requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces undertaking its activities. Because of the way in which Non-Departmental Public Bodies are financed, Monitor is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which Financial Reporting Standard 13 applies. Monitor has limited powers to borrow, no powers to invest surplus funds or purchase foreign currency with grant in aid from the government. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing Monitor in undertaking its activities.

Monitor has no borrowings and relies on funding from the Department of Health for the cash requirements of its core activities and is therefore not exposed to liquidity risks. It has no material deposits apart from a cash balance of £3.0m held at Paymaster General and £0.2m held with HSBC plc. All material assets and liabilities are denominated in sterling. Monitor is not exposed to significant interest rate risk. All assets and liabilities represent fair value.

As allowed by the Financial Reporting Standard 13, debtors and creditors that are due to mature or become due within 12 months from the balance sheet date have not been disclosed as financial instruments.

18. Contingent liabilities

There were no contingent liabilities at 31 March 2008.

19. Post Balance Sheet Events

Monitor's accounts are laid before Parliament by the Comptroller and Auditor General. FRS 21 requires Monitor to disclose the date of authorisation of the accounts. The authorised date for issue is 14 July 2008.

There are no other post balance sheet events which require disclosure.

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