“Our first year has been a busy and productive one. All the main elements of the regulatory regime are in place and we have already authorised the equivalent of more than 20 per cent of the acute trust sector as foundation trusts.”
William Moyes, Executive Chairman, Monitor

“It’s becoming our hospital [...] The whole ethos of consultation, sharing and patient focus is cascading down from the top.”
Ian Mason, Governor, Stockport NHS Foundation Trust

“Foundation status allows us to become more than just a hospital. By establishing stronger links with the community we are moving towards being a provider of care services.”
Ian Balmer, Chief Executive, Moorfields Eye Hospital NHS Foundation Trust

“Foundation trust status provides freedom from constantly pursuing capital. It enables us to construct the hospital we need to meet current and future requirements.”
Vaughan Pierce, Medical Director, Royal Devon and Exeter NHS Foundation Trust
NHS foundation trusts

Authorised 1 April 2004
1 Basildon and Thurrock University Hospitals
2 Bradford Teaching Hospitals
3 Countess of Chester Hospital
4 Doncaster and Bassetlaw Hospitals
5 Homerton University Hospital
6 Moorfields Eye Hospital
7 Peterborough and Stamford Hospitals
8 Royal Devon and Exeter
9 Stockport
10 The Royal Marsden

Authorised 1 July 2004
11 Cambridge University Hospitals
12 City Hospitals Sunderland
13 Derby Hospitals
14 Gloucestershire Hospitals
15 Guy’s and St. Thomas’
16 Papworth Hospital
17 Queen Victoria Hospital
18 Sheffield Teaching Hospitals
19 University College London Hospitals
20 University Hospital Birmingham

Authorised 1 January 2005
21 Barnsley Hospital
22 Chesterfield Royal Hospital
23 Gateshead Health (authorised 5 January 2005)
24 Harrogate and District
25 South Tyneside

Authorised 1 April 2005
26 Frimley Park Hospital
27 Heart of England
28 Lancashire Teaching Hospitals
29 Liverpool Women’s
30 The Royal National Hospital for Rheumatic Diseases
31 The Royal Bournemouth & Christchurch Hospitals

Authorised on 1 June 2005
32 Rotherham
NHS foundation trusts – key facts

We have now authorised 32 NHS foundation trusts, which account for approximately 20 per cent of the English acute trust sector. Collectively they:

- treat around seven million patients a year;
- have a turnover of £6 billion;
- employ 120,000 people; and
- have attracted over 420,000 members.

Developments from the first NHS foundation trusts include:

- new Cardiology and Surgical Unit at Stockport (see page 6)
- new International Children’s Eye Centre at Moorfields (see page 11)
- planned expansion of Intensive Care Unit at Royal Devon and Exeter (see page 15)
The introduction of NHS foundation trusts is one of the most profound changes in the history of the NHS.

While still remaining part of the NHS, foundation trusts are set free from central government control. They are able to establish stronger connections between hospitals and their local communities and are able to shape the healthcare services they provide to better reflect local needs and priorities.

All NHS trusts are expected to be given the opportunity to apply for foundation status by 2008.

Monitor has statutory duties to assess, authorise and regulate NHS foundation trusts. It also contributes to wider health policy, particularly in the development of finance, governance and market mechanisms.

It is playing a leading role in the creation of a patient-led NHS, which will deliver an improved quality of service for patients and value for money for the taxpayer.

Monitor was established in January 2004. This report describes our first full year of operation, from April 2004 to March 2005.

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Executive Chairman’s overview

NHS foundation trusts are at the cutting edge of shaping our national health service for the future. They are an integral part of the NHS, achieving and surpassing national standards as well as working constructively with other NHS organisations. They are also local organisations delivering services in a way that is best suited to their local communities.

NHS foundation trusts are managed by local managers and staff working with local people. These new organisations offer tremendous opportunities to improve services to patients.

We are clear at Monitor about our role. Our three key tasks are to:

- assess, and authorise as NHS foundation trusts, those applicants who meet the criteria;
- regulate NHS foundation trusts, focusing on effective management of risk using a risk-based compliance regime; and
- ensure that the development of NHS foundation trusts is complementary to other reforms within the NHS.
If we are successful in delivering these tasks then NHS foundation trusts will be a key part of the delivery of a patient-led NHS. We will have succeeded – and foundation trusts will have succeeded – only if patients’ experiences of the health service improve as a result of what we do.

This report describes our progress in delivering these three tasks and in establishing our organisation. We have also highlighted the progress of three of the first NHS foundation trusts. In the autumn we will be publishing a fuller review of the progress of the first NHS foundation trusts along with their consolidated financial accounts.

Our first year has been a busy and productive one. All the main elements of the regulatory regime are in place, and we have already authorised the equivalent of more than 20 per cent of the English acute trust sector as foundation trusts.

The challenge for next year is to manage the expansion of foundation trusts and to address some system policy areas that I believe are crucial to creating a genuinely decentralised health service – one that empowers patients and the staff closest to the patient.

These areas are:

- **regulation** – creating an effective regulatory framework across the system;
- **preparation of future foundation trusts** – how to best achieve the goal of giving all trusts the opportunity to apply for foundation status by 2008;
- **Payment by Results** – ensuring the implementation of Payment by Results enables system reform to move forward; and
- **management of failure** – developing and implementing a clear entry and exit regime.

Monitor will be doing a great deal of work this year to contribute to these areas. I hope you find this report useful and illuminating and I hope that, like me, you are looking forward to working together to help make our health service even better in the coming year.

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**NHS foundation trusts are:**

- a new type of NHS organisation, established as independent public benefit corporations modelled on co-operative and mutual traditions;
- free from central government control and from strategic health authority performance management;
- providers of healthcare according to core NHS principles – free care, based on need and not ability to pay;
- accountable to local people, who can become members and governors;
- free to innovate for the benefit of their local community and patients;
- able to decide for themselves what capital investment is needed in order to improve their services and increase their capacity; and
- free to retain any surpluses they generate and to borrow in order to support this investment.

**Monitor:**

- was established in January 2004 as the Independent Regulator of NHS Foundation Trusts;
- is independent of Government and accountable to Parliament;
- assesses new applicants for foundation trust status;
- makes sure that foundation trusts live up to their obligations under their Terms of Authorisation; and
- champions reforms to ensure that NHS foundation trusts contribute to delivering a patient-led NHS.
Establishing well-managed and financially viable NHS foundation trusts

“We subject applicant foundation trusts to a disciplined and challenging process that puts greater scrutiny on applicants than they have had before.”

Monitor has established a rigorous and refined process for assessing applicants. This examines whether they possess the three key requirements to be a successful NHS foundation trust.

The assessment process establishes if the applicant trusts are:

- legally constituted;
- well governed; and
- financially viable and sustainable.

Once an NHS trust has received the approval of the Secretary of State for Health, it can apply to Monitor for authorisation as an NHS foundation trust.

We subject applicant foundation trusts to a disciplined and challenging process that puts greater scrutiny on them than they have had before. This has generally been welcomed by boards of applicants as a useful mechanism for stimulating change and clarifying the risks and opportunities of foundation status.

To test financial sustainability, we examine short and long-term financial projections. We require the applicant trust’s Board to certify to us that they have sufficient working capital to operate effectively, and that their financial reporting procedures are sound.

We ask for that certification to be backed by a professional opinion from one of the major accounting firms. This looks at the quality of financial reporting procedures and the adequacy of working capital for the first 12 months.

We also look at applicants’ service development strategies, incorporating five-year projections and test whether, in that timescale, the applicant has demonstrated that it can generate the sustainable surpluses it will need to invest in improving patient care.

We also focus on the ability of the whole Board to understand the risks the organisation will face as a foundation trust and to make a reliable judgement as to whether these risks are being managed or mitigated effectively.
The first group of NHS trusts was referred to us by the Secretary of State in January 2004. The first 10 NHS foundation trusts were authorised by Monitor with effect from 1 April 2004 with further authorisations made in July 2004 and on January, April and June 2005.

You will find a complete list of NHS foundation trusts at the front of this report or on the Monitor website at www.monitor-nhsft.gov.uk

Additionally, 12 applicants for NHS foundation trust status were not authorised. Six of these applications were deferred, with the NHS trust asked to undertake further work in specific areas in support of its application. The other six applications were either refused by Monitor or withdrawn by the trust. If any of these six applicants wish to be considered again by Monitor they will have to re-apply first to the Secretary of State for approval.

We expect the next group of applicants to be passed to Monitor by the Secretary of State in the winter of 2005, with a view to authorisation decisions in spring 2006.
Focus on Stockport NHS Foundation Trust

Fresh development
Stockport provides acute hospital care to over 350,000 people in Stockport and North Derbyshire’s High Peak. The most dramatic evidence of its achievement of foundation trust status is clearly visible for everyone in the local community to see.

Work has started on a new £25 million Cardiology and Surgical Unit (CSU) which is due to be operational by the summer of 2006. The foundation trust used its new freedoms to gain financial backing for the development which provides additional theatres, a 32 bed short stay unit, an eight bed coronary care facility and a 21 bed clinical management unit.

In the past, Stockport’s CSU proposal had not been prioritised because funding was diverted elsewhere. “Without foundation trust status, the CSU would not have happened for many years, if at all,” says Chief Executive Dr Chris Burke. “Now, people can see it becoming a reality and they are getting very excited about it.”

Adds Dr Mohan Datta-Chaudhuri, Clinical Director for the Division of Medicine and Associate Medical Director of the foundation trust: “Everyone agrees that this is a very welcome development for the population of Stockport. It will cut waiting times, reduce the duration of people’s hospital stays and means that patients no longer have to travel further afield.”

Lowering stress
Another significant development during the hospital’s first 12 months as a foundation trust was to invest in an additional 330 car parking spaces. Patients can now get to clinics on time, which also means that the hospital can function more efficiently.

Trust Governor for the High Peak area, Ian Mason, has noticed a profound cultural change in the past year too.

“The management is doing very well in getting lay people involved. It’s becoming our hospital and staff now have much greater involvement too because they really feel part of a team,” he says. “The whole ethos of consultation, sharing and patient focus is cascading down from the top.”

Employs 3,787 people across four main sites

There are 46 wards, 11 operating theatres, three endoscopy rooms

867 inpatient beds and 19 day case beds

Dr Chris Burke (right) on site at the construction of the new Cardiology and Surgical Unit
Local voices
Through the foundation trust’s ‘Local Voice, Local Choice’ initiative, local people, patients, staff and key partners have been involved in priority setting, planning and decision making. Membership has increased from 5,669 to 11,535. Links with a wide variety of community organisations have been strengthened and the trust is particularly keen on procuring locally-sourced goods and services.

But the number one priority remains patient care. The trust’s ‘Dignity and Respect’ programme focuses firmly on visitors, concentrating on the first impression patients receive through the hospital’s communication, environment and staff behaviour.

The trust seeks to become the hospital of first choice in the Stockport and High Peak area, but key challenges remain. Says Dr Datta-Chaudhuri: “We must continue to make sure the public are satisfied. But we must also keep our staff on board. Recruitment is not a problem but retention can sometimes be difficult.”

Dr Burke adds: “Foundation trust status has been a step change, raising the game on how to compete. We have to secure a position within the marketplace, the independent sector and local networks in order to deliver a vibrant local hospital.”

“Everyone agrees that this is a very welcome development for the population of Stockport. It will cut waiting times, reduce the duration of people’s hospital stays.”

Dr Mohan Datta-Chaudhuri, Clinical Director for the Division of Medicine and Associate Medical Director of the foundation trust
Achieving risk-based regulation

“We have adopted a risk-based approach [to regulation]...This will ensure that the regulatory burden is proportionate, with the most successful foundation trusts having less regulatory oversight.”

In establishing the regulatory framework for NHS foundation trusts, we have adopted a risk-based approach with transparency in how the risks that each NHS foundation trust faces are assessed.

This will ensure that the regulatory burden is proportionate, with the most successful foundation trusts having less regulatory oversight. Steps have also been taken to avoid duplication of regulation with other organisations and to minimise the information requirements from NHS foundation trusts. In December 2004, it was announced that half of all central collections of data were stopped or cut in size for NHS foundation trusts.

This approach follows current best practice. Notably, it corresponds closely to the principles of inspection and enforcement described in the recent Hampton Review: Reducing Administrative Burdens: Effective Inspection and Enforcement.

During the past year, we have completed a large part of the regulatory framework for NHS foundation trusts, including the Compliance Framework, Prudential Borrowing Code and financial reporting requirements. We have used our statutory powers of intervention with regard to Bradford Teaching Hospitals NHS Foundation Trust.

Compliance Framework
During the past year we have monitored NHS foundation trusts through quarterly financial returns and exception reports. Building on this interim approach, in November 2004 we began a three-month consultation on our proposals for the Compliance Framework. We sent over 2,000 copies of our consultation document to stakeholders in the NHS and elsewhere. We received more than 100 detailed responses and we developed our proposals to reflect common themes and new ideas contained in those responses.
We published the Compliance Framework in March 2005 (you can view it on our website at www.monitor-nhsft.gov.uk). The underlying premise of the framework is that the principal responsibility for compliance with the Terms of Authorisation rests with the Board of Directors of the NHS foundation trust. They will act as the first line of regulation. There are three main components to the Compliance Framework.

1 **Annual assessment** – NHS foundation trusts will submit an annual plan to Monitor, which will be assessed to set a risk ratings. The ratings will indicate the risk of an NHS foundation trust failing to comply with its Terms of Authorisation in three areas: finance, governance and mandatory services. The ratings will be used to guide the frequency and depth of regulatory scrutiny by Monitor. The first ratings will be published in the late summer of 2005.

2 **In-year monitoring** – NHS foundation trusts will report on their performance to Monitor initially on a quarterly basis. Those with the lowest financial risk will move over time to half-yearly reporting.

3 **Intervention** – the framework describes the approach that Monitor will adopt in determining how to intervene with a foundation trust which is significantly failing to comply with its Terms of Authorisation.

**Prudential Borrowing Code**

In March 2005, following a consultation period, we laid the Prudential Borrowing Code before Parliament. This sets out the criteria for setting borrowing limits for each foundation trust and provides a framework for them to manage their capital positions with a greater degree of discretion than if they were still an NHS trust.

This freedom will enhance the ability of foundation trusts to respond quickly and effectively to the changing needs of patients by targeting capital where it will have the greatest positive impact on care. The code helps them to maintain prudent borrowing positions relative to their revenues and costs.

The code incentivises foundation trusts to manage their finances well and it gives greater borrowing freedom to those trusts which face the least financial risk.
The maximum cumulative amount of long-term borrowing of each NHS foundation trust is set with reference to five ratio tests which they must meet. The debt-to-capital ratio has a maximum percentage limit that varies according to Monitor’s assessment of financial risk for each foundation trust. Foundation trusts with the best financial risk rating will be able to borrow on a debt to capital ratio of up to 40 per cent, subject to the other ratios being met.

Financial reporting guidance
In March 2005, following consultation, we published guidance for NHS foundation trusts on the reporting requirements for their annual reports. These requirements now correspond much more closely to UK Generally Accepted Accounting Practice (GAAP) than the requirements for NHS trusts. UK GAAP is applicable to the commercial sector. The requirements we have issued enable NHS foundation trusts to take a more commercial approach to financial reporting, facilitate their freedom to borrow and enable comparability with the private sector. The requirements also enable NHS foundation trusts to present their accounts in a more user-friendly manner, which will help to engage their members.

Foundation trusts are expected to lay their annual reports before Parliament before the summer recess and Monitor will publish its report on the consolidated accounts of NHS foundation trusts in autumn 2005.

Interventions
Monitor has extensive powers of intervention if we identify that an NHS foundation trust is significantly failing to comply with its Terms of Authorisation. We are required by the Health and Social Care (Community Health and Standards) Act 2003 ("the 2003 Act") to publish details of any intervention. These powers enable us to step in swiftly to ensure that an NHS foundation trust remedies failings in an appropriate timescale to protect the provision of patient care.

During the year, Monitor used its powers of intervention with regard to Bradford Teaching Hospitals NHS Foundation Trust.

The deteriorating financial situation at Bradford Teaching Hospitals was highlighted by its first quarterly monitoring report submitted at the end of July. Following discussions with its Board, Monitor determined that the foundation trust was failing to comply with its duty under both its Terms of Authorisation and the 2003 Act to exercise its functions effectively, efficiently and economically, and that the failure was significant.

Monitor intervened in October 2004 to appoint external advisers to review the financial position of Bradford Teaching Hospitals and make recommendations for remedial action. Both prior to that appointment and following the presentation of a report by the advisers, Monitor consulted extensively with the trust’s Board and senior management team and considered their responses. After lengthy reviews by its Board, Monitor determined that it still had serious concerns. The foundation trust’s severe financial predicament, particularly its liquidity position, gave rise to crucial questions of leadership. Monitor therefore intervened again in December 2004 to remove the Chair and appoint a new Chair on an interim basis.

The appointment of the interim Chair strengthened the leadership of Bradford Teaching Hospitals. This change has allowed the foundation trust to take more effective action to address its financial position, improve relations with the local health community and properly adjust to the cultural and organisational challenges of being an NHS foundation trust. These positive steps have been strengthened with the appointment of a new Chairman, David Richardson, and a new Chief Executive, Miles Scott.
**Focus on Moorfields Eye Hospital NHS Foundation Trust**

**A shared vision**
Moorfields Eye Hospital in London has an enviable heritage as one of the oldest and largest specialist eye hospitals in the world. It has a global reach and reputation, with over half the UK’s practising ophthalmologists and many more overseas having trained there. After being granted foundation trust status in April 2004, the hospital is now able to strengthen its pre-eminent position.

**Freedom to plan**
The change in the governance of the trust is enabling Moorfields to move speedily towards the goals laid out in its clinical development strategy. It also has enabled it to build even closer ties with some of its partners, including primary care trusts, universities and patient representative groups such as the Royal National Institute for the Blind (RNIB).

Thanks to the financial freedoms granted by foundation trust status, the hospital has embarked on a number of projects in 2005, including the redevelopment of various outreach centres to provide larger and better-equipped clinics, and a much needed programme of investment of over £1 million to replace and upgrade equipment at all sites.

Its largest commitment, however, has been the new International Children’s Eye Centre (ICEC). As Ian Balmer, Chief Executive of Moorfields says: “To build the new ICEC, we are raising significant funds from donors, but we needed the ability to underwrite the last section of funding. Foundation trust status allowed us to do this, without which it would have been a couple more years before we could have started.”

**Beyond the clinical**
While these on-the-ground improvements yield immediate benefits, the change to foundation trust status has enabled Moorfields to develop a longer term “shared clinical vision” strategy that places consultation with patients and trust members at the heart of the planning process.

“Shared clinical vision is primarily about looking at service delivery from the patients’ perspective”, says Ian Balmer. “Once you really start talking with people about service provision, it becomes very obvious that there is room for improvement.”

**Trust members 11,500**
employing **1000 people**
across **11 sites**

**17,000 ophthalmic operations**
in **2004**

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Mr Bill Aylward, Medical Director at Moorfields Eye Hospital NHS Foundation Trust, performing an eye examination
“The new trust Membership Council has enabled us, for the first time, to get real patient input into the planning process.”

Bill Aylward, Medical Director, Moorfields Eye Hospital NHS Foundation Trust

His colleague, Bill Aylward, Medical Director at Moorfields concurs: “The contribution of patients on the Membership Council has made a big difference and really vindicates the principle that we should all be asking patients what they want rather than making assumptions.”

For all concerned the key approach to improving services goes beyond the clinical. As publicly elected Governor Malcolm Barrow says: “We are focused on the holistic process of how patient care is delivered.”

Ian Balmer agrees: “Foundation status allows us to become more than just a hospital. By establishing stronger links with the community we are moving towards being a provider of care services.”

An eye to the future

In partnership with the onsite Institute of Ophthalmology (part of University College London), Moorfields manages the largest ongoing ophthalmic research programme in the world. Much of this work has international application, for example investigating the prevalence of childhood eye diseases in the less developed parts of the world.

The strength of its research agenda is crucial to Moorfields and foundation status has offered real scope for development of its future programme.

According to Ian Balmer: “Research, like everything else, requires capital funding. As the state-funded component of medical research diminishes, we have to think more entrepreneurially about how we support and deliver it. Our foundation trust status empowers us to do this.”

There is real confidence at Moorfields about the future of the hospital and the NHS foundation trust movement. As Malcolm Barrow puts it: “Foundation trusts are really still in their early stages. Those of us in the vanguard have been given the opportunity to put some flesh on the bones and really advance public healthcare.”

“Foundation status has granted us financial freedoms. We have the power to raise the capital to meet our development plans and aspirations.”

Ian Balmer, Chief Executive, Moorfields Eye Hospital NHS Foundation Trust
Shaping health system policy

“It is essential that regulation adds to the effectiveness of the NHS, making services better for patients.”

NHS foundation trusts are at the heart of an innovative programme of system reform in the NHS. Monitor will play a constructive role in those areas of reform that are key to the success of NHS foundation trusts. These include:

- improving the regulatory framework;
- helping NHS trusts achieve foundation status;
- shaping the new financial regime; and
- managing failure and insolvency.

Improving the regulatory framework
It is essential that regulation adds to the effectiveness of the NHS, making services better for patients. We are committed to ensuring that the regulatory framework is appropriate, looking not only at our own activities but also taking into account those of others, such as the Department of Health and the Healthcare Commission.

Effective economic regulation in health would have three objectives:

- ensuring reliable delivery of high quality services;
- fostering efficiency and accountability; and
- encouraging a fair operating environment.

At present, responsibility for these functions in healthcare is shared between a variety of organisations, principally the Department of Health, strategic health authorities and Monitor. We are encouraging debate on the best future structure for economic regulation in healthcare.

Helping NHS trusts achieve foundation status
Monitor, the Department of Health and two strategic health authorities (Birmingham and The Black Country and Cheshire and Merseyside) are introducing a rigorous analysis programme to identify areas where NHS trusts need to develop to reach the standard required for foundation status. This analysis does not change the role of the Secretary of State in determining support for NHS trusts’ applications and is distinct from Monitor’s authorisation process.

The analysis programme will help NHS trusts and strategic health authorities (SHAs) to identify and address challenges that are identified prior to application, thereby improving their business planning and increasing the likelihood of their NHS foundation trust application being successful.
We are currently conducting pilot schemes for the analysis tools in the two SHAs and we intend to develop two more SHA hubs over the next few months. Subject to the evaluation of the pilots, these four geographically distributed SHAs will act as the focus for the roll out of the programme to the rest of the NHS.

If the pilots are successful, we anticipate that the programme will be rolled out across all other SHAs and NHS trusts in autumn 2005 and will be completed within the first half of 2006.

Shaping the new financial regime

NHS foundation trusts have been the first users of Payment by Results (PbR), the new NHS financial regime that provides a transparent, rules-based system for paying trusts. Under PbR, payment rates are determined by a tariff which is set with reference to benchmark data from across the NHS, adjusted for local variables such as pay rates. The PbR system will reward efficiency and support patient choice. It also complements the financial freedoms enjoyed by NHS foundation trusts.

Fair and accurate tariff setting at a national level and activity coding at a local level are critical for creating the right quality and activity incentives whilst also ensuring system affordability.

All participants must have confidence in the tariff mechanism and be able to rely on it for planning over different time horizons. Large and unexplained swings in the tariff must be avoided. Monitor is therefore working closely with the Department of Health in helping to identify and address the issues which arise as PbR is extended across the NHS.

Managing failure and insolvency

The failure regime for NHS foundation trusts is a key remaining part of the regulatory framework. The legislation sets out a broad context for the management of failure in a foundation trust, ensuring that the interests of patients come first. Further work is required on the detailed regulations that are needed to underpin the legislation, for example to ensure that the interests of creditors are adequately protected.

This would encourage commercial organisations to lend to foundation trusts on acceptable terms in the absence of financial guarantees. We are taking forward work in this area, again working closely with the Department of Health, as the issues raised are pertinent to other NHS trusts as well.
Focus on Royal Devon and Exeter NHS Foundation Trust

New horizons
The Royal Devon and Exeter NHS Foundation Trust (RD&E) provides acute hospital services to the people of Exeter, East and mid Devon, and specialist services to people as far afield as the Channel Islands. With foundation status, the trust has continued to broaden its horizons and is building on its reputation for clinical excellence.

Real investment
The RD&E, like other foundation trusts, discovered that the new financial flexibility enabled them to see very tangible infrastructure benefits from the outset.

“We immediately had the freedom to start thinking about the layout of the hospital,” says Medical Director Dr Vaughan Pierce. “We were able to start planning the substantial expansion required by our Intensive Care Unit and a new cardio catheter lab to come online later in 2005.”

Foundation status has also allowed the hospital to retain its thoracic surgery unit and add a new modular operating theatre.

All of these improvements are leading to direct patient benefits and according to Dr Vaughan Pierce: “Foundation trust status provides freedom from constantly pursuing capital. It enables us to construct the hospital we need to meet current and future requirements.”

Real engagement
The RD&E’s 10,000 trust members are spread across many rural areas. Hence it is perhaps no surprise that the other key benefit to come from foundation trust status has been the opportunity to engage with local communities about what they need most from their hospital.

The RD&E employs a service development strategy based on engagement with the staff and public members of the trust, where each was asked for the three things they felt were most important to improving service at the hospital. Their responses led to the creation of a number of core service strategies, including improved access to services, building better partnerships and improved use of the skills of staff.

“Achieving foundation status has opened up a different view of the future and of how healthcare can be.”

Angela Pedder, Chief Executive, RD&E

Employs 5,800 people, 30 wards, 20 operating theatres

850 inpatient beds and over 60 daycase beds

Angela Pedder, Chief Executive (right), at the new modular operating theatre
“Our performance against these new targets will be benchmarked going forward,” says the trust’s Chief Executive Angela Pedder. “This is a perfect example of how foundation status has led to more consultation and local decision making.”

However, she acknowledges that there is still much to do: “We are just beginning to see arrangements and relationships with the local community yielding real results. This is only the start of a long journey.”

Perhaps the trust’s approach to community engagement is best embodied by publicly elected Governor Reuben Miles. Born at the RD&E and having lived in the rural community, Reuben has developed an understanding of what local people require from the hospital.

“The four mid-Devon governors have regular local meetings with members of the community to discuss the issues important to them”, he says. “We advertise these locally and send posters out detailing the key topics up for discussion and inviting local involvement. These meetings attract up to 35 members of the public, which is high for such a rural area.”

**Meeting the challenge**

While the new financial freedoms of foundation status allow the trust to plan much further ahead, Angela Pedder believes that this brings additional accountability: “Trusts must have the utmost clarity about their financial strategy before embarking on the path to foundation status, as it brings significant added responsibility.”

Angela sums up the challenges faced in becoming a foundation trust: “If we have learnt one thing about foundation trust status it’s that you must be more free thinking. The freedom to act and question the established way of doing things has opened up a world of possibilities. It’s widened our horizons.”

“We have been told by many of our local community that we are trusted to look after their best interests and make the right decisions. That is very rewarding in itself.”

Reuben Miles, Governor, RD&E
We have made excellent progress this year in determining our appropriate organisational structure and in staffing it with Monitor employees.

During 2004-05, we built the organisation up from two to 33 permanent members of staff, attracting and developing highly qualified and motivated people. During this year, we have also developed our internal structure so that it provides an improved fit for the organisation’s regulatory duties.

We have established a Regulatory Operations Directorate which has accounted for most of our permanent recruitment. This directorate incorporates teams working on assessment, monitoring, compliance and intervention. We have learned from experience that integrating these key areas provides more efficient regulation.

We have created a permanent Legal Directorate, which provides advice to the Board and to all our teams on every aspect of our work. We will also expand the team to ensure we have adequate resources to cover compliance and intervention.

In the next year we will be developing a Strategy Directorate, which will focus on the strategic issues affecting Monitor and NHS foundation trusts, external relationship management and policy development.

Given the scale of work we have faced and because many of our projects have been essentially short-term in nature, we have continued to use external consultants during the last year. The proportion of Monitor’s spend on external consultancy has decreased this year by over 10 per cent and this proportion will continue to decrease as the organisation matures and becomes fully staffed.

We have developed employment policies on a range of issues from health and safety and equality and diversity. Employment policies are always kept under review to ensure compliance with relevant legislation and best practice.

We depend upon the commitment and skills of our people to achieve our objectives. We have developed processes for engaging staff, carrying out a staff survey in December 2004. We also developed the skills of the assessment staff at an event held in the summer of 2004.

Looking forward, we will maintain the organisational structure that is needed to meet Monitor’s requirements, ensuring we attract and retain the best talent to carry out our work effectively and efficiently. We will continue to engage staff on a range of issues, to develop a committed and focused workforce. We will also consult on and deliver a range of HR improvements covering personal development, performance management and pay and reward.
The Board

Monitor’s Board comprises the Executive Chairman, William Moyes, and four non-executive directors. In March, the Board appointed existing Non-Executive Director Christopher Mellor as Deputy Chairman.

The minutes of all Board meetings are available on our website, www.monitor-nhsft.gov.uk. We have formally established and held regular meetings of the Audit Committee. Meetings between the Monitor Board and the Board of trusts applying for foundation status are an established part of the assessment process.

Dr William Moyes
Executive Chairman

Dr Moyes was appointed Executive Chairman in January 2004. He 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.

Christopher Mellor
Deputy Chairman

Mr Mellor was appointed for a period of three years from 10 May 2004. He is Chair of Monitor’s Audit Committee. Mr Mellor 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. Mr Mellor has held a number of public positions, including Chairman of the Anglian Region Sustainable Development Forum and membership of the Government’s Advisory Committee on Business in the Environment.
Dr Penelope Dash  
Non-Executive Director

Dr Dash was appointed for a period of four years from 10 May 2004. Dr Dash holds a range of positions as a freelance Healthcare Strategy Consultant and Advisor, working for a number of organisations across the NHS, private and voluntary sectors. She was previously Head of Strategy and Planning at the Department of Health until 2001. She started her career as a doctor in hospitals in London and is a member of the Royal College of Physicians. Dr Dash worked for Kaiser Permanente and the Boston Consulting Group in the United States.

Jude Goffe  
Non-Executive Director

Ms Goffe was appointed for a period of four years from 12 July 2004. A venture capital and corporate advisor, she was previously Non-Executive Director of Moorfields Eye Hospital NHS Foundation Trust and a Non-Executive Member of the Board of the Independent Television Commission (ITC). 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.

Kate Nealon  
Non-Executive Director

Ms Nealon was appointed for a period of three years from 10 June 2004. She is a member of Monitor’s Audit Committee. Ms Nealon is also a Non-Executive Director with HBOS plc and Cable and Wireless plc. Previously she worked for Standard Chartered, latterly as Group Head of Legal and Compliance from 1992 to 2004. A US-qualified lawyer, she has practised international banking and regulatory law in New York. Ms Nealon has spoken and written extensively on corporate governance and business ethics. She is also a Senior Associate at the Judge Institute of Management at the University of Cambridge. In addition, Ms Nealon carries out anti-money laundering training as a consultant with European Bank for Reconstruction and Development (EBRD).
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 under the Health and Social Care (Community Health and Standards) Act 2003.

Principal activities

**Authorising NHS foundation trusts**

Monitor receives and considers applications from NHS trusts seeking NHS foundation trust status. If satisfied that certain criteria are met, it authorises them to operate as NHS foundation trusts. The terms of their formal authorisation set out the conditions under which an NHS foundation trust is required to operate.

**Regulation and compliance**

Once NHS foundation trusts are established, their activities are monitored to ensure that they comply with the requirements of their Terms of Authorisation. Inspection of the performance of an NHS foundation trust against healthcare standards is carried out by the Healthcare Commission, which will, when appropriate, send Monitor copies of their inspection reports. Monitor has the power to intervene in the running of an NHS foundation trust in the event of a significant failure to comply with its Terms of Authorisation.

Results for the year

Monitor achieved a breakeven position during the year, with grant-in-aid of £16.0 million covering its costs. Of this funding, £14.9 million was revenue and £1.1 million was capital grant and was used to fund the purchase of fixed assets.

‘Building Monitor’ on page 17 sets out a review of Monitor’s development during the year and future plans.
Board membership

Dr William Moyes
(Executive Chairman) was appointed for a period of four years from 5 January 2004.

Mr Christopher Mellor
(Deputy Chairman) was appointed for a period of three years from 10 May 2004.

Dr Penelope Dash
(Non-Executive Director) was appointed for a period of four years from 10 May 2004.

Ms Jude Goffe
(Non-Executive Director) was appointed for a period of four years from 12 July 2004.

Ms Kate Nealon
(Non-Executive Director) was appointed for a period of three years from 10 June 2004.

Mr Brian Parrott
(Non-Executive Director) term of appointment ended on 30 June 2004.

Mr Colin Davies
(Non-Executive Director) term of appointment ended on 8 April 2004.

Preparation of accounts

In accordance with the provisions of Schedule 2 of the Health and Social Care (Community Health and Standards) Act 2003, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2005.

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. An internal staff communications strategy will be finalised in 2005 to ensure that appropriate information is provided to staff and that suitable consultation takes place.

Health and safety

Monitor complies with all relevant legislation concerning health and safety at work. Programmes of inspections, tests, risk assessments and training are in progress and Monitor is committed to ensuring that safe working conditions are provided for employees, contract staff and visitors.

Statement of payment practices

Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2005.

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 2005 are disclosed in Note 4 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts for the year ended 31 March 2005.

Dr William Moyes
Executive Chairman
1 July 2005
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;
- 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 Government Accounting.
Statement on internal control

Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of Monitor’s policies, aims and objectives (as set out in the Health and Social Care (Community Health and Standards) Act 2003 and Monitor’s Business Plan), whilst safeguarding the public funds and assets in accordance with the responsibilities assigned to me in Government Accounting and the Accounts Direction from the Department of Health dated 25 February 2004.

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 at Monitor for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.
Risk and control framework

Corporate governance arrangements in Monitor are set out in Schedule 2 to the Health and Social Care (Community Health and Standards) Act 2003 and in Standing Orders. A key element of this is a Board that I chair that meets at least monthly to consider the plans and strategic direction of Monitor. The Chief Operating Officer, Head of Legal Services, and Director of Communications are standing attendees but do not have a formal decision-making role. The Board is responsible for:

- ensuring that high standards of corporate governance are observed and encouraging high standards of propriety;
- establishing the strategic direction and priorities of Monitor within the statutory framework of the Health and Social Care (Community Health and Standards) Act 2003;
- promoting quality in Monitor’s activities and services;
- monitoring performance against agreed objectives and targets;
- ensuring effective dialogue with the Department of Health and other stakeholders to best promote the continued success and growth of NHS foundation trusts; and
- ensuring that Board members personally, and Monitor corporately, observe the seven principles of public life set by the Committee on Standards in Public Life.

The work of the Board is also informed by other senior committees including the Audit Committee and the Senior Management Team.

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 Senior Management Team.

Additionally the policy sets out the specific responsibilities of Monitor’s Directors for the effective management of risk. This is cascaded through the owners of key objectives as set out in the Business Plan, within which key managers have designated responsibility for actions designed to improve controls and to minimise the impact of risks that do mature. The Senior Management Team meets regularly 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. On risk there have been:

- through the development and implementation of the Business Plan, regular reviews of the policy, framework and system being established to ensure effective identification and management of risk;
- a formal internal audit of our risk management arrangements; and
- the development and implementation of an organisation-wide risk register, including an assessment of the effectiveness of key internal controls.

In addition, in the coming year, Monitor plans to introduce a range of measures, such as:

- further development of risk awareness through specialist training;
- the full introduction of a performance management system and individual staff development plans;
- inclusion of a section on risk in all Board and Senior Management Team papers; and
- the inclusion of a standing item on risk management at all Board meetings.
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 the executive managers within Monitor 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 with any recently formed organisation there is a need to quickly establish an effective system of internal control. For Monitor, as the regulator of NHS foundation trusts, there is an additional reputational risk associated with demonstrating that these processes are in place and operating efficiently.

KPMG, the internal auditors, were therefore specifically tasked to focus their efforts in this area, and with their assistance, Monitor has put in place the fundamental controls necessary to meet the requirements of Treasury guidance. The internal audit programme for 2005-06, which has recently been agreed by the Audit Committee, will ensure that the system is developed to a higher level of sophistication and embedded in all areas of Monitor’s work.

During the year the Board has maintained a strategic overview and review of internal control and developing risk management arrangements through regular reports by Directors on their areas of responsibility and through specific papers for discussion at Board meetings. The Board, which met on 18 separate occasions during the year, has been heavily involved in all aspects of Monitor’s core work of assessment, compliance and intervention.

Whilst these areas were not covered as part of the internal audit programme for 2004-05, the intensive nature of the Board’s involvement in these areas provides me with the assurance I require in order to be satisfied that effective controls were in place. These areas will however be covered as part of the internal audit programme for 2005-06.

Since its establishment in September 2004, 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. Advice on the implications of the result of the 2004-05 review of the effectiveness of the system of internal control has been provided to the Accounting Officer by the Audit Committee.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems for 2004-05.

Dr William Moyes
Executive Chairman
1 July 2005
I certify that I have audited the financial statements on pages 28 to 36 under the Health and Social Care (Community Health and Standards) Act 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 31.

Respective responsibilities of the Executive Chairman and Auditor

As described on page 22, the Executive Chairman is responsible for the preparation of the financial statements in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State and for ensuring the regularity of financial transactions. The Executive Chairman is also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if Monitor has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.
I review whether the statement on pages 23 to 25 reflects Monitor’s compliance with Treasury’s guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer’s Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of Monitor’s corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Executive Chairman in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Independent Regulator of NHS Foundation Trusts (Monitor) at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State; and

- 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.

I have no observations to make on these financial statements.

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

John Bourn
Comptroller and Auditor General
4 July 2005

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP
Financial statements and notes

Income and expenditure account – year ended 31 March 2005

<table>
<thead>
<tr>
<th>Note</th>
<th>2005 £000's</th>
<th>2004 £000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grant-in-aid</td>
<td>2</td>
<td>14,952</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>14,954</strong></td>
<td><strong>3,414</strong></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>3</td>
<td>3,631</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>4</td>
<td>11,179</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>(14,950)</strong></td>
<td><strong>(3,414)</strong></td>
</tr>
<tr>
<td>Operating surplus and surplus for year carried forward</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

All operations are continuing.
Surplus for year represents the total recognised gains and losses for the year ended 31 March 2005.
The notes on pages 31 to 36 form part of these accounts.
Comparative figures relate to 5 January 2004 to 31 March 2004.
## Balance sheet – as at 31 March 2005

<table>
<thead>
<tr>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>149</td>
<td>0</td>
</tr>
<tr>
<td>Tangible fixed assets</td>
<td>1,007</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td>5</td>
<td>1,156</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors falling due within one year</td>
<td>6</td>
<td>88</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td>4,727</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>4,815</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts falling due within one year</td>
<td>7</td>
<td>(4,751)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td>64</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td>1,220</td>
</tr>
<tr>
<td>Provisions</td>
<td>8</td>
<td>(60)</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td></td>
<td>1,160</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income and expenditure account</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Government capital grant reserve</td>
<td>1,156</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total reserves</strong></td>
<td>9</td>
<td>1,160</td>
</tr>
</tbody>
</table>

The notes on pages 31 to 36 form part of these accounts.

**Dr William Moyes**  
Executive Chairman  
1 July 2005
Cash flow statement – year ended 31 March 2005

<table>
<thead>
<tr>
<th>Note</th>
<th>2005 £000’s</th>
<th>2004 £000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash flow from operating activities</td>
<td>10</td>
<td>4,726</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to acquire fixed assets</td>
<td>5</td>
<td>(1,199)</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government capital grant reserve</td>
<td>9</td>
<td>1,199</td>
</tr>
<tr>
<td>Net cash inflow</td>
<td></td>
<td>4,726</td>
</tr>
<tr>
<td>Increase in cash at bank and in hand</td>
<td></td>
<td>4,726</td>
</tr>
</tbody>
</table>

The notes on pages 31 to 36 form part of these accounts.
Comparative figures relate to 5 January 2004 to 31 March 2004.
Notes to the accounts

1. Accounting policies

Accounting convention
The accounts for Monitor are prepared under the historical cost convention modified to include the revaluation of fixed assets.

Without limiting the information given, the accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State with the approval of HM Treasury. The accounts comply with generally accepted accounting practice in the United Kingdom (UK GAAP) to the extent that this is meaningful in respect of Monitor’s activities.

Government grant-in-aid
Government grant-in-aid which contributes to the general activities of Monitor is credited to the income and expenditure account as to match the income with the related expenditure. Any such Government grant-in-aid received before the expenditure is charged to the income and expenditure account is held as deferred income.

Government grant-in-aid receivable as a contribution towards capital expenditure is credited to the Government capital grant reserve and is released to the income and expenditure account to match any depreciation charge on the capital asset.

Tangible and intangible fixed assets
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 and scheduled for disposal around the same time, or assets which are purchased at the same time and are to be used together, are grouped together as if they were individual assets.

Assets purchased prior to the current financial year are indexed annually using the Office for National Statistics’ indices if there is a material difference between the historical cost and current replacement cost. In 2004-05, Monitor decided that no material adjustment was necessary and therefore modified historic cost accounting has not been applied in the financial year 2004-05.

For fixed assets funded by grants, each year an amount equal to the depreciation is transferred from the Government grant reserve to the income and expenditure account. 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 – three years
- Furniture, fixtures and office equipment – five years
- Leasehold improvements – 10 years

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

No charge has been levied for the year ended 31 March 2005 on the basis that the average capital employed was minimal.

Operating leases
Operating leases are charged to the income and expenditure account 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 the income and expenditure account. Details are included in Note 12 to the Accounts.

Value Added Tax
Monitor is not registered for Value Added Tax (VAT). All expenditure reported in these financial statements therefore includes VAT incurred.
2. Income – Government grant-in-aid

<table>
<thead>
<tr>
<th>Description</th>
<th>£000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total government grant-in-aid received</td>
<td>16,011</td>
</tr>
<tr>
<td>Government grant-in-aid transferred to Government capital grant reserve</td>
<td>(1,059)</td>
</tr>
</tbody>
</table>

Government grant-in-aid to income and expenditure account     | 14,952 |

3. Staff costs

a) Staff costs comprise of the following

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000's</td>
<td>£000's</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>1,380</td>
<td>49</td>
</tr>
<tr>
<td>Social security costs</td>
<td>144</td>
<td>6</td>
</tr>
<tr>
<td>Employer’s pension costs</td>
<td>204</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total cost of staff employed</strong></td>
<td>1,728</td>
<td>64</td>
</tr>
<tr>
<td>Agency, seconded, temporary and interim</td>
<td>1,903</td>
<td>795</td>
</tr>
<tr>
<td><strong>Total cost of staff</strong></td>
<td>3,631</td>
<td>859</td>
</tr>
</tbody>
</table>

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

As at 1 April 2004, there were two full time employees. Monitor recruited employees throughout the year such that by 31 March 2005, there were 33 full time employees, 27 of whom are members of the Principal Civil Service Pension Scheme and three of whom are members of the Partnership Civil Service Pension Scheme. Three full time employees are not in the Civil Service pension scheme. Monitor engaged staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2005 there were nine 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 2005 was 22. The average number of whole-time equivalent agency, secondment, temporary and interim staff was 15.

c) Emoluments

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Remuneration year ended 31/03/05</th>
<th>Real increase in pension at 60</th>
<th>Total accrued pension at 31/03/05</th>
<th>Cash equivalent transfer value as at 1/4/04</th>
<th>Cash equivalent transfer value as at 31/3/05</th>
<th>Real increase in cash equivalent transfer value as funded by employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Moyes</td>
<td>Executive Chairman</td>
<td>195-200</td>
<td>0-2.5</td>
<td>35-40</td>
<td>517-518</td>
<td>552-553</td>
<td>3-4</td>
</tr>
<tr>
<td>Stephen Hay</td>
<td>Chief Operating Officer</td>
<td>75-80</td>
<td>0-2.5</td>
<td>0-5</td>
<td>0</td>
<td>5-6</td>
<td>3-4</td>
</tr>
<tr>
<td>Stephen Humphreys</td>
<td>Director of Communications</td>
<td>60-65</td>
<td>0-2.5</td>
<td>0-5</td>
<td>0</td>
<td>6-7</td>
<td>4-5</td>
</tr>
<tr>
<td>Katharine Moore</td>
<td>Head of Legal Services</td>
<td>50-55</td>
<td>0-2.5</td>
<td>0-5</td>
<td>0</td>
<td>5-6</td>
<td>3-4</td>
</tr>
<tr>
<td>Janet Polson</td>
<td>Head of Human Resources</td>
<td>35-40</td>
<td>5-7.5</td>
<td>25-30</td>
<td>224-225</td>
<td>320-321</td>
<td>83-84</td>
</tr>
</tbody>
</table>

None of the above received benefits-in-kind. Remuneration represents only emoluments paid whilst the above individuals concerned were permanent members of Monitor’s staff.

The following employees joined during the year:

Stephen Hay 01/10/04 from 01/12/03 to 30/09/04, Stephen Hay was a secondee to Monitor from KPMG
Stephen Humphreys 01/06/04 from 17/11/03 to 31/05/04, Stephen Humphreys worked for Monitor through an agency
Katharine Moore 06/09/04
Janet Polson 01/10/04 from 17/11/03 to 30/09/04, Janet Polson worked as a consultant to Monitor
Remuneration of Monitor Board members

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration (£000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penny Dash</td>
<td>10-15</td>
</tr>
<tr>
<td>Jude Goffe</td>
<td>10-15</td>
</tr>
<tr>
<td>Christopher Mellor</td>
<td>10-15</td>
</tr>
<tr>
<td>Kathleen Nealon</td>
<td>10-15</td>
</tr>
<tr>
<td>Brian Parrott</td>
<td>0-5</td>
</tr>
<tr>
<td>Colin Davies</td>
<td>0-5</td>
</tr>
</tbody>
</table>

Brian Parrott’s term as Non-Executive Director ended 30/6/04
Colin Davies’ term as Non-Executive Director ended 08/4/04

4. Other operating charges

<table>
<thead>
<tr>
<th>Item</th>
<th>2005 (£000's)</th>
<th>2004 (£000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property expenses</td>
<td>736</td>
<td>104</td>
</tr>
<tr>
<td>Office expenses</td>
<td>952</td>
<td>92</td>
</tr>
<tr>
<td>Consulting services</td>
<td>8,072</td>
<td>2,270</td>
</tr>
<tr>
<td>Other professional fees</td>
<td>1,125</td>
<td>28</td>
</tr>
<tr>
<td>Audit fees</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>General expenses</td>
<td>414</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total other operating costs</strong></td>
<td><strong>11,319</strong></td>
<td><strong>2,549</strong></td>
</tr>
</tbody>
</table>

The audit fee represents the cost of the audit of the financial statements carried out by the National Audit Office. The NAO also audits the consolidated accounts for the foundation trusts separately prepared by Monitor.

5. Fixed assets

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>Software licences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000's</td>
</tr>
<tr>
<td><strong>Cost or valuation</strong></td>
<td></td>
</tr>
<tr>
<td>As at 1st April 2004</td>
<td>0</td>
</tr>
<tr>
<td>Transfer from tangible assets</td>
<td>19</td>
</tr>
<tr>
<td>Additions</td>
<td>137</td>
</tr>
<tr>
<td><strong>At 31st March 2005</strong></td>
<td><strong>156</strong></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
</tr>
<tr>
<td>As at 1st April 2004</td>
<td>0</td>
</tr>
<tr>
<td>Charge for year</td>
<td>7</td>
</tr>
<tr>
<td><strong>As at 31st March 2005</strong></td>
<td><strong>7</strong></td>
</tr>
<tr>
<td>Net book value at 1st April 2004</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net book value at 31st March 2005</strong></td>
<td><strong>149</strong></td>
</tr>
</tbody>
</table>

£19K of tangible assets were reclassified as intangible assets during the year.

<table>
<thead>
<tr>
<th>Tangible assets</th>
<th>IT equipment</th>
<th>Fixtures, fittings and office equipment</th>
<th>Leasehold improvements</th>
<th>Total £000's</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost or valuation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1st April 2004</td>
<td>103</td>
<td>0</td>
<td>0</td>
<td>103</td>
</tr>
<tr>
<td>Transfer to intangible assets</td>
<td>(19)</td>
<td>0</td>
<td>0</td>
<td>(19)</td>
</tr>
<tr>
<td>Additions</td>
<td>98</td>
<td>338</td>
<td>626</td>
<td>1,062</td>
</tr>
<tr>
<td><strong>At 31st March 2005</strong></td>
<td><strong>182</strong></td>
<td><strong>338</strong></td>
<td><strong>626</strong></td>
<td><strong>1,146</strong></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1st April 2004</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Charge for year</td>
<td>43</td>
<td>38</td>
<td>52</td>
<td>133</td>
</tr>
<tr>
<td><strong>As at 31st March 2005</strong></td>
<td><strong>49</strong></td>
<td><strong>38</strong></td>
<td><strong>52</strong></td>
<td><strong>139</strong></td>
</tr>
<tr>
<td>Net book value at 1st April 2004</td>
<td>97</td>
<td>0</td>
<td>0</td>
<td>97</td>
</tr>
<tr>
<td><strong>Net book value at 31st March 2005</strong></td>
<td><strong>133</strong></td>
<td><strong>300</strong></td>
<td><strong>574</strong></td>
<td><strong>1,007</strong></td>
</tr>
</tbody>
</table>
### 6. Debtors – amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td>Accrued income</td>
<td>0</td>
<td>1,098</td>
</tr>
<tr>
<td>Prepayments</td>
<td>49</td>
<td>131</td>
</tr>
<tr>
<td>Other debtors</td>
<td>39</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>88</strong></td>
<td><strong>1,229</strong></td>
</tr>
</tbody>
</table>

### 6a. Debtors – intra Government balances

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td>Balances with Central Government bodies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balances with NHS bodies</td>
<td>0</td>
<td>1,098</td>
</tr>
<tr>
<td>Balances with public corporations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balances with bodies external to Government</td>
<td>88</td>
<td>131</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>88</strong></td>
<td><strong>1,229</strong></td>
</tr>
</tbody>
</table>

### 7. Creditors – amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>3,305</td>
<td>407</td>
</tr>
<tr>
<td>Accruals</td>
<td>1,244</td>
<td>823</td>
</tr>
<tr>
<td>Other creditors</td>
<td>202</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,751</strong></td>
<td><strong>1,230</strong></td>
</tr>
</tbody>
</table>

### 7a. Creditors – intra Government balances

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td>Balances with Central Government bodies</td>
<td>1,926</td>
<td>0</td>
</tr>
<tr>
<td>Balances with NHS bodies</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Balances with public corporations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balances with bodies external to Government</td>
<td>2,815</td>
<td>1,230</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,751</strong></td>
<td><strong>1,230</strong></td>
</tr>
</tbody>
</table>

### 8. Provisions

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td>Provision for dilapidation</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

### 9. Reserves

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000’s</td>
<td>£000’s</td>
</tr>
<tr>
<td><strong>Government capital grant reserve</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital grant-in-aid brought forward</td>
<td>97</td>
<td>0</td>
</tr>
<tr>
<td>Capital grant-in-aid transferred</td>
<td>1,199</td>
<td>103</td>
</tr>
<tr>
<td>Transferred to I&amp;E account in respect of depreciation</td>
<td>(140)</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Balance at 31st March</strong></td>
<td><strong>1,156</strong></td>
<td><strong>97</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income and expenditure account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating surplus for year</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Balance at 31st March</strong></td>
<td><strong>4</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>
10. Reconciliation of operating surplus to net cash inflow from operating activities

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating surplus for the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Adjustments for non-cash items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in provision</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>140</td>
<td>6</td>
</tr>
<tr>
<td>Transfer from government capital grant reserve</td>
<td>(140)</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Adjustments for movements on working capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/decrease in debtors falling due within one year</td>
<td>1,141</td>
<td>(1,229)</td>
</tr>
<tr>
<td>Increase in creditors falling due within one year</td>
<td>3,521</td>
<td>1,230</td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td>4,726</td>
<td>1</td>
</tr>
</tbody>
</table>

11. 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.

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Two-five years</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>After more than five years</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Pension scheme

Monitor participates in the Principal Civil Service Pension Scheme (PCPSS). 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 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £197,252 were payable to the PCPSS (2003-04: £9,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £6,562 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from three to 12.5 per cent of pensionable pay. Employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions of £485, 0.8 per cent of pensionable pay, were payable to the PCPSS 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 £0. Contributions prepaid at that date were £528.

13. Capital commitments

There were no contracted capital commitments at 31 March 2005 not provided for in the accounts.

There were no other financial commitments at 31 March 2005 that require disclosure.

14. 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.
15. 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 the 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 its own cash requirements and is therefore not exposed to liquidity risks. It also has no material deposits and 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.

16. Contingent liabilities

A claim under the Race Relations Act was filed against Monitor in October 2004. Monitor is contesting the claim. The full Employment Tribunal hearing is part-heard and will be resumed in September 2005. If the claim is successful, the Tribunal will rule upon the applicant’s schedule of loss detailing, for example, loss of earnings and remuneration.

Monitor considers, however, that the applicants’ claim will not succeed.

As at 31 March 2005 there were no other contingent liabilities.