

# NHS foundation trusts: consolidated accounts 2015/16



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## **NHS Improvement**

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## About NHS Improvement

NHS Improvement is responsible for overseeing foundation trusts, NHS trusts and independent providers. We offer the support these providers need to give patients consistently safe, high quality, compassionate care within local health systems that are financially sustainable. By holding providers to account and, where necessary, intervening, we help the NHS to meet its short-term challenges and secure its future.

NHS Improvement is the operational name for the organisation that from 1 April 2016 brings together Monitor, NHS Trust Development Authority, Patient Safety including the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.

## About Monitor

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and patients do not lose out through restrictions on their rights to make choices, through poor purchasing on their behalf, or through inappropriate anti-competitive behaviour by providers or commissioners.

This report covers the period from 1 April 2015 until 31 March 2016, before the establishment of NHS Improvement as the operational name for Monitor and the other transferring organisations. Monitor continues to exist as a legal entity.

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## Foreword

Monitor is responsible for authorising, monitoring and regulating NHS foundation trusts and was established under the Health and Social Care (Community Health and Standards) Act 2003. This Act was largely repealed on 1 March 2007 and re-enacted on that date in a consolidating statute, the National Health Service Act 2006 (the 2006 Act). The Health and Social Care Act 2012 (the 2012 Act) amended the 2006 Act and made further provisions in relation to Monitor.

Paragraph 25 of Schedule 7 to the 2006 Act requires each NHS foundation trust to prepare annual accounts for the period beginning with the date on which it is authorised and ending with the following 31 March and for each successive 12-month period, and to submit the accounts to Monitor. These annual accounts must be audited by auditors appointed by the NHS foundation trust's council of governors. The trust must lay a copy of the accounts, and any auditor's report on them, before Parliament and send them to Monitor. NHS foundation trusts that cease to exist as separate legal entities and/or cease to provide services before the end of the year continue to prepare accounts for their final period as directed by Monitor and have them audited, but do not present them to a council of governors.

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. Under the 2012 Act the Secretary of State can direct the content and form of the accounts and also direct Monitor to send the consolidated accounts to the Comptroller and Auditor General for audit. The Secretary of State issued a direction to this effect in 2014 which has continued to apply for the 2015/16 consolidated accounts. The Comptroller and Auditor General must report on the accounts and lay copies of the accounts and the report on them before Parliament as directed by the Secretary of State.

As far as Monitor's Accounting Officer, Jim Mackey, is aware, there is no relevant audit information of which the auditors of the consolidated accounts are unaware. The accounting officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 153 individual NHS foundation trusts which were authorised by Monitor prior to 1 April 2016 and were in existence during the 2015/16 financial year, together with comparative information for the foundation trust sector for 2014/15<sup>1</sup>. The dates of authorisation of these and periods of inclusion in the consolidated accounts are as follows:

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<sup>1</sup> Heatherwood and Wexham Park NHS Foundation Trust and Royal National Hospital for Rheumatic Diseases NHS Foundation Trust ceased to exist during 2014/15 when their functions

Authorised on or prior to 1 April 2014 and consolidated for the year ended 31 March 2015 and the year ended 31 March 2016:

- 2gether NHS Foundation Trust
- 5 Boroughs Partnership NHS Foundation Trust
- Aintree University Hospitals NHS Foundation Trust
- Airedale NHS Foundation Trust
- Alder Hey Children's NHS Foundation Trust
- Ashford and St Peter's Hospitals NHS Foundation Trust
- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Berkshire Healthcare NHS Foundation Trust
- Birmingham and Solihull Mental Health NHS Foundation Trust
- Birmingham Children's Hospital NHS Foundation Trust
- Birmingham Women's NHS Foundation Trust
- Black Country Partnership NHS Foundation Trust
- Blackpool Teaching Hospitals NHS Foundation Trust
- Bolton NHS Foundation Trust
- Bradford Teaching Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Calderstones Partnership NHS Foundation Trust
- Cambridge University Hospitals NHS Foundation Trust
- Cambridgeshire and Peterborough NHS Foundation Trust
- Camden and Islington NHS Foundation Trust
- Central and North West London NHS Foundation Trust
- Central Manchester University Hospitals NHS Foundation Trust
- Chelsea and Westminster Hospital NHS Foundation Trust
- Cheshire and Wirral Partnership NHS Foundation Trust
- Chesterfield Royal Hospital NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Cornwall Partnership NHS Foundation Trust
- Countess of Chester Hospital NHS Foundation Trust
- County Durham and Darlington NHS Foundation Trust
- Cumbria Partnership NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Derbyshire Healthcare NHS Foundation Trust
- Doncaster and Bassetlaw Hospitals NHS Foundation Trust
- Dorset County Hospital NHS Foundation Trust

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were transferred to other foundation trusts. The part-year of their activity in 2014/15 has been retained in the comparative year presented in these accounts.

- Dorset Healthcare University NHS Foundation Trust
- East Kent Hospitals University NHS Foundation Trust
- East London NHS Foundation Trust
- Frimley Park Hospital NHS Foundation Trust
- Gateshead Health NHS Foundation Trust
- Gloucestershire Hospitals NHS Foundation Trust
- Great Ormond Street Hospital for Children NHS Foundation Trust
- Great Western Hospitals NHS Foundation Trust
- Greater Manchester West Mental Health NHS Foundation Trust
- Guy's and St Thomas' NHS Foundation Trust
- Hampshire Hospitals NHS Foundation Trust
- Harrogate and District NHS Foundation Trust
- Heart of England NHS Foundation Trust
- Hertfordshire Partnership NHS Foundation Trust
- Homerton University Hospital NHS Foundation Trust
- Humber NHS Foundation Trust
- James Paget University Hospitals NHS Foundation Trust
- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Kingston Hospital NHS Foundation Trust
- Lancashire Care NHS Foundation Trust
- Lancashire Teaching Hospitals NHS Foundation Trust
- Leeds and York Partnership NHS Foundation Trust
- Lincolnshire Partnership NHS Foundation Trust
- Liverpool Heart and Chest Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Luton and Dunstable Hospital NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Cheshire Hospitals NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust<sup>2</sup>
- Milton Keynes Hospital NHS Foundation Trust
- Moorfields Eye Hospital NHS Foundation Trust
- Norfolk and Norwich University Hospitals NHS Foundation Trust
- Norfolk and Suffolk NHS Foundation Trust
- North East Ambulance Service NHS Foundation Trust
- North East London NHS Foundation Trust
- North Essex Partnership University NHS Foundation Trust
- North Tees and Hartlepool NHS Foundation Trust

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<sup>2</sup> From 1 November 2014 Mid Staffordshire NHS Foundation Trust's licence was revoked. The foundation trust continues to exist as a legal entity and so is consolidated for the entire years ended 31 March 2015 and 31 March 2016, but the trust ceased to provide services on 1 November 2014 when its services transferred to other NHS bodies.

- Northamptonshire Healthcare NHS Foundation Trust
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Northumberland, Tyne and Wear NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Oxford Health NHS Foundation Trust
- Oxleas NHS Foundation Trust
- Papworth Hospital NHS Foundation Trust
- Pennine Care NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Poole Hospital NHS Foundation Trust
- Queen Victoria Hospital NHS Foundation Trust
- Rotherham Doncaster and South Humber NHS Foundation Trust
- Royal Berkshire NHS Foundation Trust
- Royal Brompton and Harefield NHS Foundation Trust
- Royal Devon and Exeter NHS Foundation Trust
- Royal Free London NHS Foundation Trust
- Royal Surrey County Hospital NHS Foundation Trust
- Salford Royal NHS Foundation Trust
- Salisbury NHS Foundation Trust
- Sheffield Children's NHS Foundation Trust
- Sheffield Health and Social Care NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Somerset Partnership NHS Foundation Trust
- South Central Ambulance Service NHS Foundation Trust
- South East Coast Ambulance Service NHS Foundation Trust
- South Essex Partnership University NHS Foundation Trust
- South London and Maudsley NHS Foundation Trust
- South Staffordshire and Shropshire Healthcare NHS Foundation Trust
- South Tees Hospitals NHS Foundation Trust
- South Tyneside NHS Foundation Trust
- South Warwickshire NHS Foundation Trust
- South West Yorkshire Partnership NHS Foundation Trust
- South Western Ambulance Service NHS Foundation Trust
- Southend University Hospital NHS Foundation Trust
- Southern Health NHS Foundation Trust
- Stockport NHS Foundation Trust
- Surrey and Borders Partnership NHS Foundation Trust
- Sussex Partnership NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust
- Taunton and Somerset NHS Foundation Trust

- Tavistock and Portman NHS Foundation Trust
- Tees, Esk and Wear Valleys NHS Foundation Trust
- The Christie NHS Foundation Trust
- The Clatterbridge Cancer Centre NHS Foundation Trust
- The Dudley Group NHS Foundation Trust
- The Hillingdon Hospitals NHS Foundation Trust
- The Newcastle upon Tyne Hospitals NHS Foundation Trust
- The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
- The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust
- The Rotherham NHS Foundation Trust
- The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust
- The Royal Marsden NHS Foundation Trust
- The Royal Orthopaedic Hospital NHS Foundation Trust
- The Walton Centre NHS Foundation Trust
- Torbay and South Devon NHS Foundation Trust (formerly named South Devon Healthcare NHS Foundation Trust)
- University College London Hospitals NHS Foundation Trust
- University Hospital of South Manchester NHS Foundation Trust
- University Hospitals Birmingham NHS Foundation Trust
- University Hospitals Bristol NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- University Hospital Southampton NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust
- West Midlands Ambulance Service NHS Foundation Trust
- West Suffolk NHS Foundation Trust
- Western Sussex Hospitals NHS Foundation Trust
- Wirral University Teaching Hospital NHS Foundation Trust
- Wrightington, Wigan and Leigh NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust
- York Teaching Hospital NHS Foundation Trust.

Authorised prior to 1 April 2013 and consolidated for the year ended 31 March 2014 and the six-month period ended 30 September 2014 prior to dissolution:

- Heatherwood and Wexham Park Hospitals NHS Foundation Trust.

Authorised prior to 1 April 2013 and consolidated for the year ended 31 March 2014 and the 10-month period ended 31 January 2015 prior to dissolution:

- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust.

Authorised 1 November 2014 and consolidated for the five-month period ended 31 March 2015 and the year ended 31 March 2016:

- Bridgewater Community Healthcare NHS Foundation Trust
- Derbyshire Community Health Services NHS Foundation Trust
- Royal United Hospitals Bath NHS Foundation Trust.

Authorised 1 February 2015 and consolidated for the two-month period ended 31 March 2015 and the year ended 31 March 2016:

- St George's University Hospitals NHS Foundation Trust.

Authorised 1 March 2015 and consolidated for the one-month period ended 31 March 2015 and the year ended 31 March 2016:

- Kent Community Health NHS Foundation Trust
- Nottinghamshire Healthcare NHS Foundation Trust.

Authorised 1 May 2015 and consolidated for the 11-month period ended 31 March 2016:

- Bradford District Care NHS Foundation Trust.

Authorised 1 October 2015 and consolidated for the six-month period ended 31 March 2016:

- Oxford University Hospitals NHS Foundation Trust.

## NHS Improvement provider sector context

As stated in the Foreword, this document is a consolidation of the results of NHS foundation trusts for the year ended 31 March 2016. This is in line with a direction for the preparation of these accounts issued by the Secretary of State.

From 1 April 2016, NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety including the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams. NHS Improvement is responsible for overseeing foundation trusts, NHS trusts and independent providers.

In May 2016 we published our report, [Performance of the NHS provider sector: year ended 31 March 2016](#). This report, on the performance of NHS trusts and NHS foundation trusts, said that:

The NHS provider sector's financial performance declined sharply in 2015/16. The year-end deficit of £2.45 billion was almost three times greater than that reported in 2014/15, and £461 million worse than the revised plan (£340 million worse than initial plan).

Providers' year-end financial performance was affected by:

- a) High usage of contract and agency staff. The cost of unplanned agency staff contributed £1.4 billion to the full-year adverse variance despite agency controls. The overspending was partly offset by savings from underspending on substantive staff.
- b) Delayed transfers of care. Providers have estimated that such delays have cost £145 million this year. However, full costs could be much higher.
- c) Financial sanctions. Financial pressures were further exacerbated by £498 million of fines and readmission penalties.
- d) Costs of waiting list initiative (WLI) work. Providers have spent £143 million on such work this financial year to avoid breaches of waiting-time targets.
- e) A shortfall of £316 million cost savings against the planned cost improvement programmes.
- f) A reduction in non-recurrent income compared to 2014/15, including the loss of one-off deficit support.

The analysis above relates to both NHS trusts and foundation trusts, reflecting the new role of NHS Improvement.

The detail in the remainder of this commentary and document relates only to foundation trusts.

## Review of NHS foundation trust financial performance 2015/16

The foundation trust sector has delivered a net deficit before impairments and gains and losses on transfers by absorption for the year ended 31 March 2016 of £1,088 million (2014/15: £345 million net deficit) and held cash of £3.5 billion as at 31 March 2016 (31 March 2015: £4.1 billion). This includes the part-year results of two new foundation trusts authorised during 2015/16.

Where NHS charitable funds are locally deemed to be controlled by a foundation trust, the financial results of the charities are consolidated within these accounts. Fifty-two foundation trusts consolidate charitable funds, contributing an aggregate surplus of £9 million and net assets of £367 million.

2015/16 has been a very challenging year for the foundation trust sector, with the deficit reflecting sustained financial pressures faced by trusts during the year. Measures introduced by NHS Improvement started to have a positive, albeit limited, impact but the sector's financial performance was affected by the high use of contract and agency staff, financial sanctions, a shortfall of cost savings and a reduction in non-recurrent income.

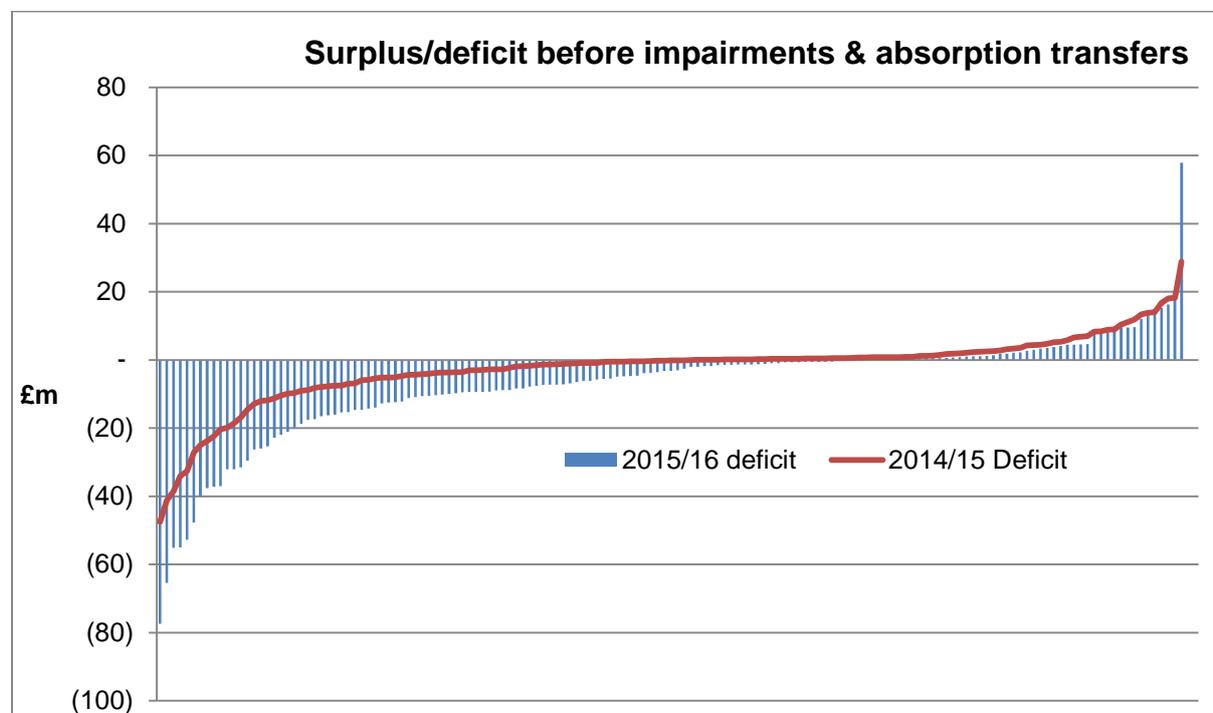
The table below shows the profile of foundation trusts that make up the sector at 31 March 2016. Trusts are classified by their principal services but they may also provide other services.

	Acute	Mental health	Ambulance	Specialist	Community	Charitable funds	Total
Number of foundation trusts	85	43	5	17	3	n/a	<b>153</b>
% of sector turnover	70.9%	19.1%	2.0%	6.8%	1.2%	0.1%	<b>100%</b>
EBITDA margin*	1.3%	4.5%	4.6%	5.5%	2.6%	n/a	<b>2.3%</b>
Surplus/(deficit) before impairments and transfers (£m)	(1,211)	43	(2)	73	0	9	<b>(1,088)</b>

\* EBITDA margins are as stated in Monitor's report on the *Performance of the foundation trust sector: year ended 31 March 2016*. Margins recalculated following completion of local audits do not differ significantly from those published.

Foundation trusts are not required to break even in every year. An in-year deficit may arise from the investment of previous surpluses or financial conditions in that particular year. The results for the year showed that, excluding the consolidation of charitable funds, 52 (34%) (2014/15: 76 (50%)) foundation trusts delivered a surplus or broke even and 101 trusts reported a deficit before impairments and transfers by

absorption, compared to 78<sup>3</sup> foundation trusts in 2014/15. The gross deficit of all foundation trusts in deficit in 2015/16 more than doubled to £1,359 million (2014/15: £638 million). Of the 75 trusts that reported a surplus in 2014/15, 30 (40%) have declined sufficiently to report a deficit in 2015/16, while only five (6%) have improved on a deficit reported in 2014/15 to report a surplus in 2015/16.



This deterioration can also be seen in the EBITDA margin (earnings before interest, tax, depreciation and amortisation excluding impairments) which has fallen significantly from 3.8% in 2014/15 to 2.3% in 2015/16.

Of the 101 trusts reporting deficits for 2015/16, 37 were subject to regulatory action as at 31 March 2016 in relation to finance or financial governance concerns (31 March 2015: 18). These 37 trusts make up 70% of the reported gross deficit value. The largest individual deficits were at the following trusts:

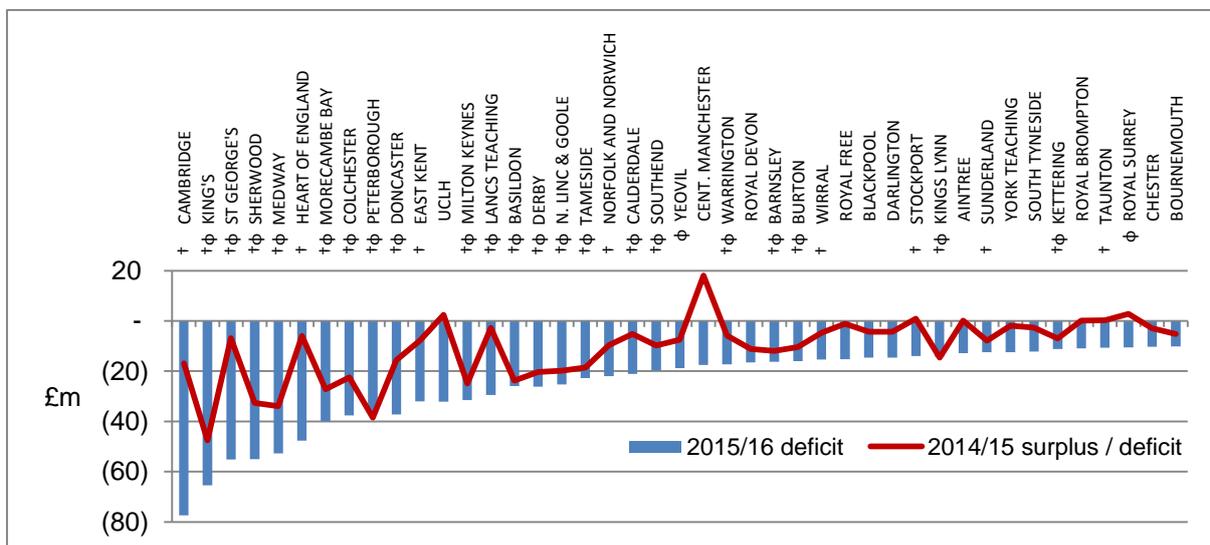
- Cambridge University Hospitals NHS Foundation Trust (£77.3 million): this deficit reflects the structural, strategic and operational issues at the trust. The trust is subject to a comprehensive turnaround programme being overseen by NHS Improvement.
- King's College Hospital NHS Foundation Trust (£65.4 million): the trust has needed to invest in resolving finance, quality and operational issues at the Princess Royal University Hospital it acquired in late 2014, and has experienced

<sup>3</sup> Doncaster and Bassetlaw Hospitals Foundation Trust (Doncaster) reported a small surplus in its 2014/15 annual report and accounts. However, in October 2015 the trust reported a £16.5 million change in its 2014/15 position after uncovering significant misreporting, changing its previously reported surplus to a deficit. As such, the number of trusts reporting a deficit in 2014/15 (78) has been updated to reflect the change in Doncaster's 2014/15 position.

difficulties in realising planned benefits of integration. The trust is subject to a comprehensive turnaround programme overseen by NHS Improvement.

- St George’s University Hospitals NHS Foundation Trust (£55.1 million): during the year the trust had a variety of financial governance issues, including in planning, monitoring and internal reporting. The trust is subject to a comprehensive turnaround programme being overseen by NHS Improvement.
- Sherwood Forest Hospitals NHS Foundation Trust (£55.0 million): the trust’s deficit is mostly due to financial challenges relating to its significant private finance initiative (PFI) commitments together with spending on agency staff following recruitment challenges. NHS Improvement will be overseeing the trust’s progress against its financial target for next year.
- Medway NHS Foundation Trust (£52.7 million): Medway’s deficit is a result of high agency staff costs, clinical and operational inefficiencies and contractual penalties. NHS Improvement is overseeing a comprehensive clinical and operational improvement programme and is supporting the trust to sustainably address the other drivers of its financial challenges.

The following graph details the trusts reporting a deficit before impairments and transfers in excess of £10 million.



† Foundation trusts subject to regulatory action in relation to finance or financial governance concerns at 31 March 2016.

φ Foundation trusts in receipt of interim support funding from the Department of Health during 2015/16.

The Department of Health (DH) provides interim financial help to foundation trusts in financial difficulty to support the continued delivery of services on a finite basis. This interim support is normally intended to be a precursor to longer-term planned investment to support the delivery of a sustainable recovery plan.

Twenty-six trusts reporting a deficit in 2015/16 received cash support from DH. The total interim support received to maintain the delivery of patient care was £704 million with an additional £47 million to support necessary capital investment.

All foundation trust financial statements have been prepared on a going concern basis in accordance with the public sector definition of the term contained in HM Treasury's *Financial reporting manual* and the [NHS foundation trust annual reporting manual](#) (FT ARM). All foundation trusts received unqualified true and fair audit opinion. The financial statements of 29 trusts in deficit received audit reports containing an 'emphasis of matter' paragraph relating to going concern or financial performance (2014/15: 21). These trusts are listed in Note 1.23 to these accounts.

## Regulatory performance

NHS Improvement (Monitor) used its risk assessment framework to highlight concerns about the fulfilment of two conditions of the provider licence: continuity of services and governance. The governance risk rating reflects Monitor's degree of concern about how the trust is run and any regulatory action currently being undertaken. The financial sustainability risk rating (FSRR) combines metrics to assess the risk to continuity of services at a provider together with a view of its overall financial efficiency. Monitor previously (until August 2015) used the continuity of service risk rating (CoSRR) to measure financial sustainability risk. The CoSRR measured medium to long-term solvency risk without a measure of current operating performance.

The risk profile for the sector as at 31 March 2016 is shown in the table below, where 4 represents the lowest risk and 1 the highest level of risk. A rating indicating serious risk does not necessarily represent a breach of the provider licence. Rather, it reflects the degree of financial concern we have about a provider and consequently the frequency with which we will monitor it. The risk profile at 31 March 2015 has not been updated to reflect the risk under the new risk assessment regime. Given the two different regimes, the figures in the table for the two periods below are not directly comparable.

	FSRR at 31 March 2016			CoSRR at 31 March 2015	
	Number of FTs	% of sector		Number of FTs	% of sector
4	33	22%	72	48%	
3	29	19%	42	28%	
2	71	47%	17	11%	
1	19	13%	19	13%	
<b>Total</b>	<b>152*</b>	<b>100%</b>	<b>150*</b>	<b>100%</b>	

\* Mid Staffordshire NHS Foundation ceased to be licensed to provide services on 1 November 2014 and is therefore not assigned risk ratings under the risk assessment framework. It exists as a shell legal entity to deal with any outstanding criminal legal cases.

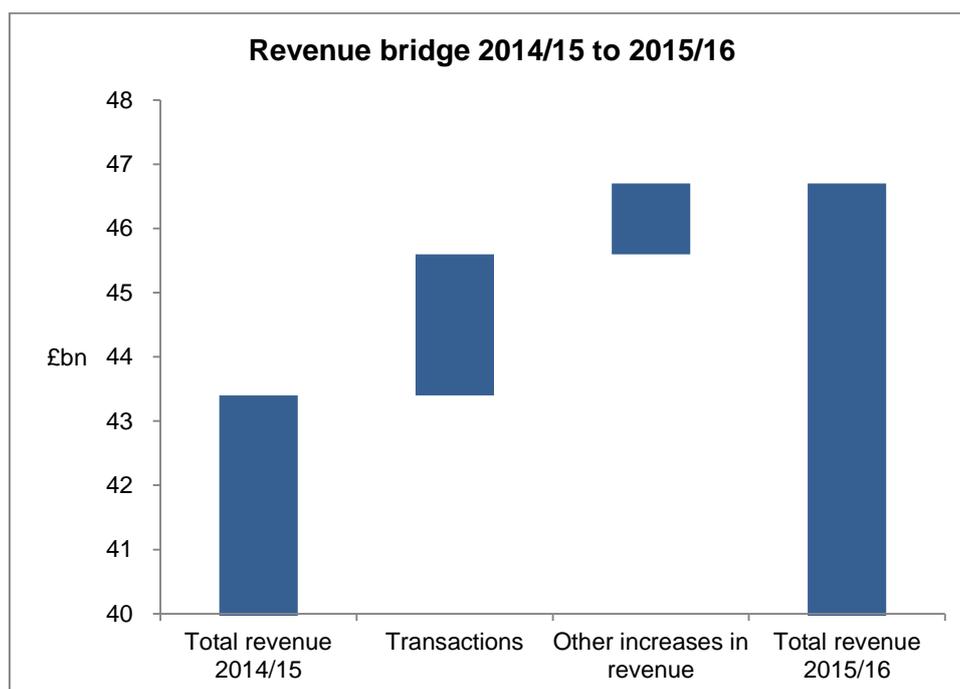
The number of foundation trusts with a financial sustainability risk rating of 1 or 2 at 31 March 2016 is 90; 71 of these 90 trusts are acute providers. Despite the financial challenges within the sector, most foundation trusts have sufficient cash reserves to ensure continuity of services. Therefore not all trusts reporting a deficit receive a low financial sustainability risk rating.

Financial sustainability and governance risk ratings are intended to indicate significant risks to a provider’s financial sustainability or poor governance, which endanger the continuity of essential patient services. Where such risks are identified, NHS Improvement (in exercise of Monitor’s legal powers) may decide to investigate whether or not there has been a breach of the trust’s licence and consider whether any enforcement action should be taken. As at 31 March 2016, 41 foundation trusts were subject to enforcement action by Monitor (31 March 2015: 29). Further information on governance risk ratings and enforcement action taken by Monitor in 2015/16 is detailed in the consolidated annual governance statement.

## Operating performance

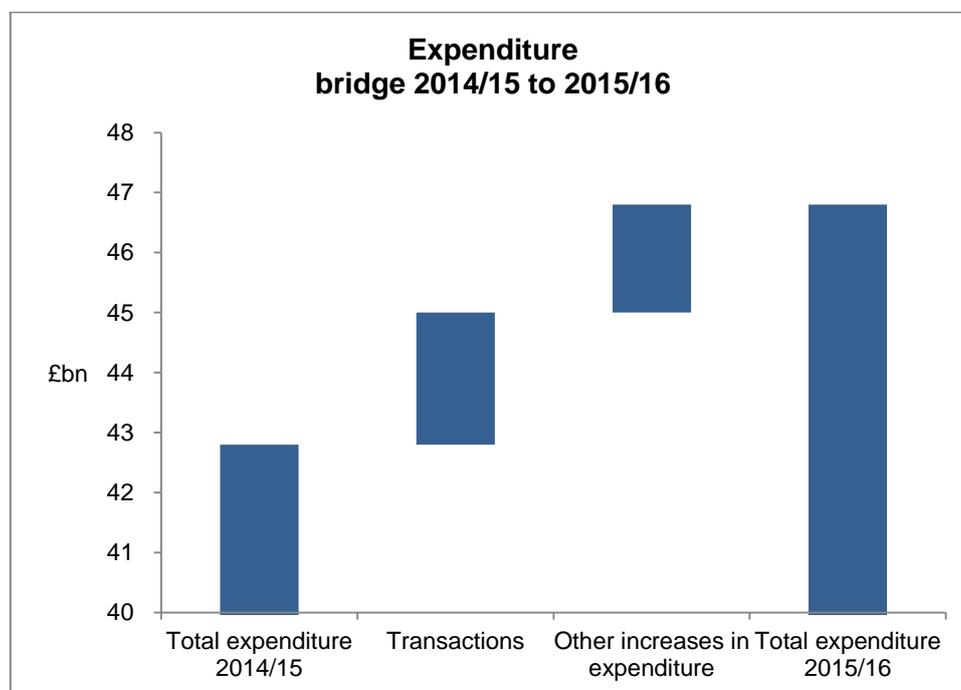
### *Operating income*

In the year to 31 March 2016, 153 foundation trusts generated total operating revenues of £46.7 billion, an increase of £3.3 billion (8%). Approximately £0.6 billion of the increase was driven by the authorisation of two new foundation trusts during the year and £2.1 billion is the full-year impact of the six foundation trusts authorised during 2014/15. £0.6 billion (1.4% of the base) is other increases in revenue. During 2015/16, 77% of foundation trusts experienced growth in revenues (2014/15: 84%) as a result of additional activity in emergency and non-elective care. As this additional activity was funded at a lower marginal rate than standard national tariff rates, it places further cost pressures on the already financially challenged sector.



## Operating expenditure

Operating expenditure increased by 9% from £42.8 billion to £46.8 billion in 2015/16. £0.5 billion of this increase is the result of the two new foundation trusts authorised in 2015/16, with £2.1 billion being the full-year impact of the foundation trusts authorised during 2014/15. £1.4 billion (3.3% of the base) is other increases in expenditure.



Over 60% (£30.3 billion) of operating expenditure relates to staff costs, £2.1 billion of which is agency staff costs (£1.8 billion in 2014/15). This increase is due to recruitment difficulties in the sector, coupled with the need to maintain safe staffing levels. NHS Improvement introduced control measures on the use of agency staff, including a price cap on hourly rates which has seen a reduction in the average price paid for agency staff since it was introduced in November 2015.

Other cost pressures have arisen from rising demand across the foundation trust sector and failure to deliver national targets. The second largest area of cost pressure for foundation trusts was drugs and other clinical supplies, which have increased in cost by £727 million to £7.8 billion in 2015/16 due to rising demands.

## EBITDA

In aggregate, EBITDA as a proportion of revenue, which is a proxy for underlying operating efficiency, decreased from 3.8% in 2014/15 to 2.3% in 2015/16. The decline was due to the costs of unplanned use of agency staff and failure to deliver planned cost improvement programmes.

<b>EBITDA margins *</b>	<b>2015/16</b>	<b>2014/15</b>
Acute	1.3%	3.4%
Mental health	4.5%	4.7%
Ambulance	4.6%	5.1%
Specialist	5.5%	5.7%
Community	2.6%	2.7%
<b>Overall EBIDTA margin</b>	<b>2.3%</b>	<b>3.8%</b>

\* Excludes the consolidation of charitable funds to represent the underlying operational efficiency of each sector.

Acute foundation trusts have suffered the largest declines, reflecting the significant financial stress in the acute sector.

Nearly 80% (120) of foundation trusts reported an EBITDA below the 5% benchmark previously used by Monitor to assess long-term financial sustainability. Thirty-seven trusts recorded a negative EBITDA margin for 2015/16, 27 of which are currently subject to enforcement action by Monitor.

#### *Surplus before impairments and gains/(losses) from transfers by absorption*

The total deficit before impairments and gains/losses from transfers by absorption was £1,088 million, which gave the foundation trust sector a negative surplus margin of 2.3% (2014/15: negative 0.8%). This is the second consecutive year that the foundation trust sector has reported a negative surplus margin. Acute trusts, ambulance trusts and community trusts recorded net deficits of £1,211 million, £2 million and £0.5 million respectively. Mental health trusts and specialist trusts have continued to record overall sector surpluses but with margins of 0.5% and 2.3% respectively (2013/14: 0.6% and 1.8%).

#### *Impact of impairments*

Impairments to the carrying value of assets are charged to operating surplus except where previous revaluation surpluses remain, and a reduction is recognised in the revaluation reserve to the extent of the remaining surplus. Where the impairments are the result of a permanent loss, such as fire damage, they are always charged to expenditure. In 2015/16, net impairments charged to income and expenditure were £497 million (2014/15: £245 million). A further £776 million of net impairments were charged to reserves (2014/15: £276 million), reducing previously recognised revaluation surpluses. There were 92 foundation trusts that recorded a net impairment within surplus/deficit in 2015/16 compared to 89 in the previous year.

Of the £497 million of net impairments charged to income and expenditure, £345 million arose from changes in market price. These impairments reflect market conditions at the time of valuation. Market price net impairments were only £4 million in 2014/15. The largest net impairments have been recorded by Chelsea

and Westminster NHS Foundation Trust and Guy's and St Thomas' NHS Foundation Trust, which both recognised an impairment as a result of revaluing their assets to align with modern equivalent assets method of valuation. Alder Hey Children's NHS Foundation Trust recognised a significant impairment in relation to the revaluation of a PFI asset that became operational in September 2015.

Further details of impairments are provided in Note 8 to the accounts.

#### *Surplus for the year before other comprehensive income*

In 2015/16, foundation trusts recorded a total deficit after impairments and transfers by absorption of £1,468 million (2014/15: £507 million). Foundation trusts recognise a gain or loss on transfers by absorption where a function or service has transferred from or to another NHS or local government body in-year. The value of any net assets transferring is recognised within surplus for the year as a gain or loss on transfer. In 2015/16 seven foundation trusts recognised transfers with bodies outside of the foundation trust sector, including Chelsea and Westminster Hospital NHS Foundation Trust's acquisition of West Middlesex University Hospital NHS Trust, and South Devon Healthcare NHS Foundation Trust's acquisition of Torbay and Southern Devon Health and Care NHS Trust. In addition, there were five transfers between foundation trusts and NHS Property Services. Further details of all transfers can be found in Note 34 to the accounts.

#### *Total comprehensive income*

Total comprehensive expense was £1,461 million compared to total comprehensive income of £112 million in 2014/15. This is a result of the sector's significant operating deficit as well as nearly £800 million of net impairments charged to reserves (compared to £276 million in 2014/15).

#### *Transfers by absorption*

Two large absorption transfers took place during 2015/16, with a total of £117 million of net assets transferred into foundation trusts from other NHS bodies. An additional £37 million was transferred between foundation trusts during the year, and hence eliminated in the consolidated accounts.

Further details of transfers by absorption are provided in Note 34 to the accounts.

#### **Net finance costs**

Net finance costs increased by £52 million in the year, from £923 million in 2014/15 to £975 million in 2015/16. This increase includes additional public dividend capital (PDC) dividend payments of £18 million. PDC dividend is calculated based on average net relevant assets, so this increase results directly from an increase in the value of the asset base for the foundation trust sector.

Main finance costs relating to PFI schemes have increased from £87 million in 2014/15 to £109 million in 2015/16. Interest paid on loans from DH (including loans from the Independent Trust Financing Facility) have also increased by £18 million to £75 million as a result of new loans issued in the year and the full-year effect of loans issued towards the end of the previous year.

### **Cash balances and borrowings**

At 31 March 2016, foundation trusts held cash and cash equivalents of £3.5 billion (31 March 2015: £4.1 billion), a decrease of £0.6 billion despite the authorisation of two new foundation trusts in-year. This continues the trend seen in the last two financial years where the sector recognised a net outflow of cash resources. The decrease is primarily a result of a declining operating surplus. This cash balance is equivalent to 3.7 weeks' operating costs in a sector with annual operating expenditure of £47.6 billion (2014/15: 4.8 weeks).

Of the total cash balance at the year end, £2.6 billion was held with the Government Banking Service, £0.6 billion with the National Loans Fund and £0.3 billion elsewhere. Of the total cash figure, £0.1 billion was held by NHS charitable funds and is not available to support the operating costs in foundation trusts.

The number of receivable days has increased only slightly from the previous year at 21.5 days (2014/15: 21.4 days), whereas payable days have increased to 38.8 days in 2015/16 from 35.8 days in 2014/15.

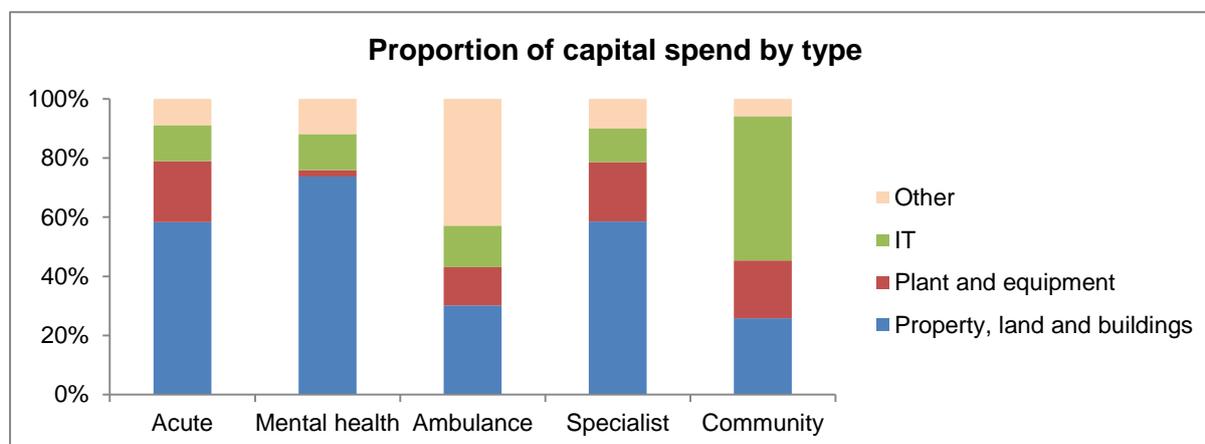
Total long-term and working capital borrowing at 31 March 2016 was £8.3 billion (31 March 2015: £6.9 billion). Of the £8.3 billion, £4.7 billion relates to outstanding PFI liabilities (31 March 2015: £4.3 billion), £3.5 billion is loan funding (31 March 2015: £2.4 billion) and £0.1 billion relates to finance leases (31 March 2015: £0.1 billion).

Most of this increase is primarily driven by the net increase in loans from DH of £1.045 billion. Twenty-six foundation trusts in receipt of interim support in 2015/16 received loans or PDC from DH: £704 million of working capital facilities, and £47 million of capital term loans. An additional £1 billion of loan funding was received by foundation trusts from DH to support capital projects or working capital.

### **Capital expenditure**

Total purchases of property, plant and equipment (PPE) and intangible assets were £1.89 billion (2014/15: £2.02 billion), a small decrease despite the authorisation of two new foundation trusts. This small decrease is consistent with the previous year, which may indicate how financial pressures are affecting foundation trusts' ability to achieve capital investment plans. Capital spend reduced for all types of trust except community trusts, due to 2014/15 spend only being part-year with mid-year authorisations as foundation trusts.

Despite the overall decrease in capital expenditure, a number of foundation trusts completed major capital developments in the year, including Guy's and St Thomas' NHS Foundation Trust's redevelopment of its A&E department and its new cancer centre.



Foundation trusts continue to invest in their estates at levels significantly in excess of depreciation charges in-year, although this is decreasing. On average, capital expenditure was 144% of the depreciation charged (2014/15: 163%). Despite increasing challenges to delivering surpluses, foundation trusts continue to invest in improving care facilities by utilising existing cash reserves and cash support from DH; however, this continued level of investment may not be sustainable in the long term.

### Events after the reporting period

At 31 March 2016 there were 153 foundation trusts, including Mid Staffordshire NHS Foundation Trust. The following foundation trusts have been authorised since 1 April 2016:

- Birmingham Community Healthcare NHS Foundation Trust: 1 April 2016
- Sussex Community NHS Foundation Trust: 1 April 2016
- Mersey Care NHS Foundation Trust: 1 May 2016. Mersey Care subsequently acquired Calderstones Partnership NHS Foundation Trust on 1 July 2016.
- Wirral Community NHS Foundation Trust: 1 May 2016.

### Looking forward

Foundation trusts experienced their most challenging year to date in 2015/16, delivering a sector net deficit for the second year running. This challenge is set to continue in 2016/17, requiring all trusts to put in place tighter financial controls to improve and sustain their financial performance. The system will need to work together to make the necessary improvements in 2016/17, to reduce any variations in care quality for patients and to bring the NHS provider sector back into financial balance.

The government's spending review in December 2015 included a £1.8 billion sustainability and transformation fund (STF) to be distributed to providers for 2016/17. This fund will help trusts reduce their deficits and allow them to focus on transforming services to deliver excellent care for patients. The STF is being allocated on a trust-by-trust basis, and receipt of funding will depend on certain conditions. Most of the STF has been allocated to providers of emergency care that have been under the greatest financial pressure, and a small element will be used to help providers achieve overall sustainability by maximising efficiency.

At the same time, NHS Improvement and NHS England are working together, nationally and regionally, on sustainability and transformation plans (STPs). These are multi-year plans produced by every health and care system in England to show how local services will evolve and become sustainable over the next five years, ultimately delivering the Five Year Forward View's vision of better health, better patient care and improved NHS efficiency. To deliver plans that are based on local populations' needs, local health and care systems came together in January 2016 to form 44 STP 'footprints'. The emphasis placed on local bodies working in partnership is important in helping the NHS deliver for patients.

We want to energise the sector and support providers to help themselves. As NHS Improvement we will:

- encourage and support networks between providers at the regional level so they can offer peer support and share good practice with each other
- develop long-lasting, mature and collaborative relationships with providers and their local systems
- align regions with NHS England and the Care Quality Commission (CQC), and have collaborative working relationships with all our partners at all levels.

There are also steps that providers need to take. In particular the sector needs to reduce expenditure on agency staff, which is a main driver of cost pressures. NHS Improvement will continue its programme of caps on spend to support providers. Lord Carter's recent report shows that NHS providers could save money through a range of productivity improvement and by eliminating unwarranted variation. In 2016/17 NHS Improvement will support providers in realising the potential from this work.

The NHS is working hard in a difficult financial environment, but there is excellent work happening every day. We will support providers to focus on improvement to secure a sustainable future.

Jim Mackey  
Chief Executive  
5 July 2016

## Statement of responsibilities and accountability framework

Jim Mackey is the Chief Executive and Accounting Officer of Monitor. In this capacity he is responsible for ensuring that Monitor prepares consolidated NHS foundation trust accounts to send to the Secretary of State in accordance with paragraph 17 of Schedule 8 to the 2012 Act. He is not the accounting officer for each individual NHS foundation trust; this is the role of each NHS foundation trust's chief executive, designated as accounting officer by the National Health Service Act 2006. Monitor is responsible for determining, with the approval of the Secretary of State, the form of accounts that each NHS foundation trust must adopt. This is described within the [NHS foundation trust annual reporting manual](#) (FT ARM), which is based on HM Treasury's *Financial reporting manual* (FReM). The manual specifically requires:

- application of suitable accounting policies on a consistent basis
- judgements and estimates to be made on a reasonable basis
- a statement within the accounts as to whether applicable accounting standards have been followed, and to disclose and explain any material departures
- accounting officers to ensure that the use of public funds complies with the relevant legislation, delegated authorities and guidance
- preparation of the accounts on a going concern basis (except in the unlikely event that it is intended for all of the NHS foundation trust's services to be discontinued and not transferred within the public sector).

In discharging its responsibilities under paragraph 17 of Schedule 8 to the 2012 Act, Monitor has prepared a set of consolidated accounts complying with directions given by the Secretary of State, on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with IFRS, as amended for NHS foundation trusts by the FReM and the FT ARM. The consolidated accounts also comply with DH's *Manual for accounts* in all relevant respects.

The directions given by the Secretary of State require Monitor to prepare consolidated accounts so as to:

- give a true and fair view of the state of affairs as at the end of the financial year and the comprehensive income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended
- disclose any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

## Annual governance statement

This Annual Governance Statement (AGS) for the NHS foundation trust sector has been prepared in the context of the accountability framework set out above. It has been prepared as a consolidation of the sector position based on reference to:

- (i) Monitor's regulatory action
- (ii) disclosures in local annual governance statements
- (iii) the audit reports issued by local external auditors.

### Scope of responsibility

NHS Improvement's Board (which is the board of both Monitor and the NHS Trust Development Authority) is not accountable for the internal control and systems of NHS foundation trusts; this is the responsibility of each NHS foundation trust's board. As accounting officer, the chief executive of each NHS foundation trust has responsibility to Parliament for maintaining a sound system of internal control that supports the achievement of that NHS foundation trust's policies, aims and objectives. In addition, the chief executive, as accounting officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the [NHS foundation trust accounting officer memorandum](#).

### Purpose of the system of internal control

NHS Improvement's system of internal control is designed to support the achievement of its policies, aims and objectives and ensure compliance with legal and other obligations on its constituent bodies (Monitor and the NHS Trust Development Authority) and NHS trusts and foundation trusts. As part of this system, NHS Improvement has the following processes to ensure these accounts provide a 'true and fair' view of the foundation trust sector:

- providing guidance to foundation trusts and their auditors, including consolidation processes, through the [NHS foundation trust annual reporting manual](#) (FT ARM); this has been approved by the Secretary of State
- relying on the external auditors appointed by each foundation trust's own council of governors to ensure the truth and fairness of each set of accounts that have been consolidated into these accounts; these auditors have each undertaken an audit in accordance with the [Code of audit practice](#) (audit code), issued by the Comptroller and Auditor General, supported by the National Audit Office (NAO)
- appointing the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consider their findings

- attending the NAO's Local Auditors' Advisory Group and associated technical networks, to which senior representatives from each of the audit suppliers appointed as auditors of foundation trusts are invited; the forum members discuss technical audit and accounting issues in the public sector, including those concerning foundation trusts
- consideration by NHS Improvement's management and by its Audit and Risk Assurance Committee of the consolidated accounts and the processes established to derive them.

In addition, legislation provides for the Comptroller and Auditor General to undertake an audit of the consolidated accounts presented in this report.

Each foundation trust's annual report and accounts, which they lay before Parliament, includes an AGS for the year ended 31 March 2016. These statements confirm that there were no significant control issues within foundation trusts except for those listed in the remainder of this consolidated statement. Each individual AGS explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk cannot be effectively controlled.

## **Overview of internal control systems within foundation trusts**

### *Risk environment: comments by foundation trusts*

Individual NHS foundation trusts generally reported continued improvement in their internal control systems during the year but a number have disclosed significant internal control issues. These were often linked to enforcement action taken by Monitor and / or outcomes of CQC inspections and failure to achieve or maintain key healthcare targets.

The most prevalent general themes have been the achievement of key healthcare targets and quality governance, with 48% and 45% of the sector respectively disclosing an additional focus on this aspect of their internal control during the year. NHS foundation trusts have also disclosed focuses on improving risk identification and management, information governance arrangements, board / leadership effectiveness, staffing issues (including recruitment and retention of staff, safe staffing levels and dependency on agency), financial governance and performance, and estate suitability.

### *Governance*

On 1 April 2013, foundation trusts became subject to a new licensing regime which replaced their terms of authorisation. From 1 October 2013 Monitor has overseen foundation trusts' compliance with the governance and continuity of services

requirements of their provider licence through application of the risk assessment framework.

Under the framework, foundation trusts are assigned a green rating if no material governance concerns are evident. Where potential material concerns have been identified which Monitor is investigating, the trust is described as 'under review'. Trusts currently subject to formal enforcement action are assigned a red rating.

Monitor publishes risk ratings on a quarterly basis. During 2015/16 the quarterly governance risk ratings assigned to foundation trusts were as follows:

<b>Governance ratings 2015/16</b>				
	<b>Q4</b>	<b>Q3<sup>4</sup></b>	<b>Q2</b>	<b>Q1<sup>5</sup></b>
Green	85	77	76	86
Under review	26	36	36	28
Red	41	39	39	37
<b>Total</b>	<b>152</b>	<b>152</b>	<b>151</b>	<b>151</b>

#### *Financial Sustainability/continuity of services*

Under the framework, the risk to financial sustainability and continued provision of essential services was assessed by assigning foundation trusts a continuity of services risk rating (CoSRR). A rating of 1 to 4 reflected the degree of financial concern, where 4 is the lowest level of risk. From August 2015 this was replaced with a financial sustainability risk rating (FSRR), which combines the CoSRR with metrics looking at current operating performance.

Over the course of 2015/16, Monitor assigned ratings to foundation trusts as follows:

<b>FSRRs 2015/16</b>				<b>CoSRRs 2015/16</b>	
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>		<b>Q1</b>
4	33	34	39	4	39
3	39	26	27	3	59
2	71	74	83	2	24
1	19	18	12	1	29
<b>Total</b>	<b>152</b>	<b>152</b>	<b>151</b>	<b>Total</b>	<b>151</b>

A low FSRR or CoSRR does not necessarily imply that the trust is in breach of its licence. Rather, it reflects the degree of financial concern Monitor may have in relation to that provider.

<sup>4</sup> During Q3 Oxford University Hospitals NHS Foundation Trust achieved NHS foundation trust status.

<sup>5</sup> During Q1 Bradford District Care NHS Foundation Trust achieved NHS foundation trust status.

### *Foundation trusts in breach of licence conditions*

During 2015/16 Monitor decided to take enforcement action against 16 foundation trusts and continued to monitor the progress of a further 29 foundation trusts subject to existing enforcement action. In addition, there were investigations of potential licence breaches that did not result in Monitor taking any enforcement action. Four foundation trusts were wholly removed from enforcement action during 2015/16.

On determining that a foundation trust is in breach of its licence conditions (or that there are reasonable grounds for suspecting a breach) following a formal investigation, Monitor (operating since 1 April 2015 under the name NHS Improvement) considers the appropriateness of using its statutory enforcement powers under the 2012 Act. Monitor may apply a range of enforcement powers including accepting enforcement undertakings, imposing discretionary requirements and imposing additional licence conditions to secure compliance and ensure breach does not recur. More information on Monitor's formal powers of enforcement and general approach to deciding on regulatory action can be found in the document [Enforcement guidance](#) available on NHS Improvement's website.

Where the CQC has recommended Monitor take regulatory action following the identification of failings in the quality of patient care, Monitor may also place a foundation trust into special measures. Under special measures, trusts are given support to improve levels of patient care including partnering with a high performing foundation trust and appointing an improvement director.

The 2012 Act also extends the provisions for trust special administration to foundation trusts. Administration is a regime for ensuring the continuity of essential services in the event of provider financial distress.

### **Review of individual foundation trusts' significant internal control weaknesses**

Monitor's enforcement action can be categorised as relating to:

- finance
- governance
- finance and governance.

Monitor taking enforcement action at a foundation trust would normally indicate the existence of control weaknesses or failings in the control environment at the trust. Details of each case are provided below. The categorisation into finance and/or governance reflects the enforcement action taken during the year rather than the year-end position for the trust.

In addition to the 'true and fair' audit opinion on the accounts, external auditors of foundation trusts are required to conclude whether the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors will qualify this conclusion where they are unable to satisfy

themselves that the foundation trust has made these proper arrangements. Such a qualification does not imply that the 'true and fair' audit opinion on the foundation trust's accounts is qualified. Fifty-three foundation trusts received a qualified conclusion from their external auditor for the year ended 31 March 2016, where the auditor was unable to satisfy themselves that the trust had put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources.

Foundation trusts may also declare other matters as significant control issues. Weaknesses that are identified in Monitor's enforcement action are listed in the section below, followed by a list of other significant control issues disclosed by foundation trusts or audit certificate qualifications issued by external auditors.

The table below provides a summary of the detail that follows:

	2015/16	2014/15
Number of foundation trusts subject to enforcement action during the year:		
Finance	6	2
Governance	8	11
Finance and Governance	30	23
Number of foundation trusts not subject to enforcement action during the year but which disclosed a significant internal control weakness or received a qualified conclusion relating to arrangements for securing economy, efficiency and effectiveness in its use of resources	20	19
Total number of qualified conclusions relating to arrangements for securing economy, efficiency and effectiveness in the foundation trust's use of resources	53	38
Number of foundation trusts where audit opinion contains 'emphasis of matter' for going concern / financial standing	29	21
Number of foundation trusts where 'true and fair' audit opinion has been modified (qualified)	0	0
Number of foundation trusts where the limited assurance opinion on quality reports assurance has been modified	66	64

### **Review of individual foundation trusts' significant internal control weaknesses: enforcement action during the year**

The following foundation trusts have been subject to enforcement action by Monitor during the year.

## Finance

- **Barnsley Hospital NHS Foundation Trust:** In June 2014 Monitor accepted enforcement undertakings from the trust relating to concerns over its finances and associated governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure that its board was functioning effectively and had sufficient capacity and capability to address its financial governance issues. In September 2015 the trust was found to be compliant with the requirements of the additional licence condition relating to finance, which was consequently removed. In January 2015 Monitor issued a compliance certificate in respect of the requirements around A&E in the trust's enforcement undertakings. The enforcement undertakings relating to financial issues remained in place at 2015/16 year end.

In its annual governance statement the trust states that addressing its financial concerns has been a challenge in 2015/16 due to the opening of additional beds to support escalation pressures. However, it adds that significant work has been undertaken to address financial issues, including the redevelopment of cash management processes.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- **Basildon and Thurrock University Hospitals NHS Foundation Trust:** In February 2015 Monitor accepted enforcement undertakings from the trust relating to concerns over its finances. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it has responded to deficiencies identified in a May 2015 financial governance review, including commissioning improvement work overseen by a dedicated steering group and enlisting support from expert external advisors. The trust adds that it will continue to direct focus and activity towards systems of internal control relating to financial governance during 2016/17, including procurement and contract management, and that a follow-up to the governance review will take place in June 2016 to check progress.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Bolton NHS Foundation Trust: In August 2012 Monitor took regulatory action against the trust following concerns about its finances. In April 2013 the trust was issued with its provider licence, and Monitor imposed discretionary requirements on the trust and accepted undertakings relating to financial planning, target breaches and governance.

In December 2014, the trust was found to have complied with its enforcement undertakings. In January and September 2015 the trust was found to have complied with the discretionary requirements and was removed from enforcement action.

In its annual governance statement the trust states that it has achieved its financial plan in 2015/16, although a significant element of this was from non-recurrent initiatives. The trust also refers to being an early adopter of recommendations from the Carter review, as well as one of the trusts that worked with Lord Carter to inform his report on operational productivity.

- The Dudley Group NHS Foundation Trust: In February 2015 Monitor accepted enforcement undertakings from the trust relating to concerns over its financial position and ongoing financial sustainability. In March the trust was found to have complied with these undertakings and was removed from enforcement action.

In its annual governance statement the trust comments that it reduced its planned deficit for 2015/16 which it then achieved, and that Monitor had reviewed the trust's process for delivering its cost improvement (transformation) programme. The trust adds that this programme will continue in order to ensure it remains financially sustainable and will underpin the trust's five-year strategy.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor that applied during the year.

- Great Western Hospitals NHS Foundation Trust: In April 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and associated financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it has worked to deliver the recommendations of a financial governance review and it has undertaken to deliver improvements in governance and financial sustainability. It adds that improvements have been made to the trust's financial position.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Rotherham NHS Foundation Trust: In February 2013 Monitor found the trust in breach of its terms of authorisation with regard to its finances. In April 2013 the trust was issued with its provider licence, and Monitor accepted enforcement undertakings from the trust relating to this issue. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that its financial position remains challenging, in particular due to an increase in agency and locum spending, and a longstanding issue with the timely coding of activity. The trust states that it is committed to ensuring it moves to a position of financial sustainability and that the board of directors remain focused on this through the board assurance framework.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

### *Governance*

- Calderstones Partnership NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to governance issues, requiring the trust to implement action plans to address both governance concerns and shortcomings identified in a safeguarding case conference (SCC).

In April 2015 Monitor found the trust to have complied with the enforcement undertakings relating to the SCC action plan. On the same date Monitor accepted additional enforcement undertakings from the trust relating to remaining quality and governance issues. In March 2016 the trust was found to have complied with all enforcement undertakings and was removed from enforcement action.

In its annual governance statement the trust states that a significant amount of improvement work has continued into 2015/16 to address governance issues, including the reappointment of two non-executive directors to the board and the delivery of a comprehensive board development programme. It adds that an independent review in 2015/16 acknowledges this improvement. The trust states that further work will be carried out in 2016/17 to support

these improvements, including the development of quality reporting metrics and a plan to become part of Mersey Care NHS Foundation Trust to secure the ongoing sustainability of services.

- Cumbria Partnership NHS Foundation Trust: In January 2014 Monitor accepted enforcement undertakings from the trust relating to quality governance issues and a CQC warning notice in November 2013. In January 2016 the trust was found to have complied with these enforcement undertakings and was removed from enforcement action.

In its annual governance statement the trust states that it came out of enforcement undertakings following a self-assessment and subsequent external review in July 2015 against Monitor's 'well-led' framework. The trust states that it has made notable progress in 2015/16 against review of its policies and procedures to reflect changes to governance arrangements, although a CQC inspection in late 2015 highlighted areas where quality governance still requires further improvement.

- Derbyshire Healthcare NHS Foundation Trust: In February 2016 Monitor accepted enforcement undertakings from the trust relating to board leadership, human resources and cultural issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that both a focused inspection by CQC and an independent review of governance arrangements were undertaken in January 2016, following the findings of a high-profile employment tribunal in 2015. The trust acknowledges the need to strengthen governance structures, improve relationships with governors, improve culture, clarify performance against management processes, and address issues with the strategy, model and structures of the HR team. The trust states that it has an action plan to address these gaps.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- North Essex Partnership University NHS Foundation Trust: In March 2016 Monitor accepted enforcement undertakings from the trust relating to governance and quality of care breaches. These remained in place at the 2015/16 year end.

In its annual governance statement the trust states that it has demonstrated significant progress against a CQC action plan in 2015/16, and that this will continue into 2016/17. The trust is commissioning external support to

undertake a review of its overall governance framework against the 'well-led' framework, and is committed to implementing the resulting action plan as well as improvements to its quality governance assurance processes.

- The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust: In January 2016 Monitor accepted enforcement undertakings from the trust relating to reporting on and performance against the referral-to-treatment (RTT) target and other governance breaches. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it has issues with achieving and reporting RTT in 2015/16, among other governance concerns highlighted in a CQC inspection. The trust states it has since developed an integrated governance action plan to address these issues.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- South East Coast Ambulance Service NHS Foundation Trust: In October 2015 Monitor accepted enforcement undertakings from the trust relating to governance issues arising from changes to its procedures for classifying calls made to the NHS 111 service. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address these issues. Following a finding by Monitor that it was in breach of this condition we required the trust to appoint an interim chair in March 2016. The enforcement undertakings and additional licence condition remained in place at 2015/16 year end.

In its annual governance statement the trust states that changes made during the pilot scheme for classifying calls were carried out without adequate clinical assessment or appraisal by the board, commissioners or NHS 111. It also states that governance failings were identified around the application of defibrillators in reporting ambulance quality indicators (AQI) performance. The trust states it is working to remedy these governance failings and will focus on implementing improvements in 2016/17.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Southern Health NHS Foundation Trust: In April 2014 Monitor accepted enforcement undertakings from the trust relating to a range of governance issues identified in CQC warning notices and a series of external reviews commissioned by the trust. In January 2016 Monitor accepted additional enforcement undertakings from the trust, following the identification of governance failures in the investigation and reporting of unexpected deaths and serious incidents requiring investigation (SIRIs). In March 2016 an improvement director was appointed. At 2015/16 year end all requirements remained in place.

In response to a warning notice by CQC for failing to address risks to patient safety posted by the physical environment, in April 2016 NHS Improvement imposed an additional licence condition on the trust requiring it to ensure it had in place sufficient and effective leadership and management capacity and capability to address its issues. Following a finding by Monitor that the trust was in breach of that condition, in May 2016 we required the trust to appoint an interim chair.

In its annual governance statement the trust states that an external review of board and quality governance arrangements has been conducted and concluded that the trust is making progress. The trust declares that a new quality improvement strategy is intended to strengthen the trust's approach to improving quality through an improved risk management approach.

In December 2015 NHS England published a report it had commissioned as an independent review of the investigation of deaths of people with a learning disability or mental health problem coming into contact with the trust. The trust states that it accepts that the quality of processes for reporting and investigating patient deaths, while improving, needs to be better. It has accepted most of the review recommendations and intends to make substantial improvements, including developing and implementing a mortality and SRI action plan, establishing a new central investigation team and launching a new system for reporting and investigating deaths to increase the monitoring, scrutiny and learning from these incidents.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Stockport NHS Foundation Trust: In January 2013 Monitor found the trust in breach of its terms of authorisation in relation to governance concerns including non-compliance with the A&E target. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement

undertakings from the trust. In August 2014 Monitor imposed discretionary requirements on the trust regarding its failure to fully deliver the April 2013 commitments. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board and sufficient capacity and capability to address these issues. In June 2015 the trust was found by Monitor to have complied with the terms of its August 2014 discretionary requirements relating to board effectiveness and governance and the additional licence condition was modified. All other requirements remained in place at 2015/16 year end.

In its annual governance statement the trust acknowledges ongoing challenges with meeting the A&E target, and declares that it has implemented initiatives to better manage patient flows. However, it warns that sustainable delivery of the standard will depend on a wider health and care system approach to ensure that patient pathways are efficient and effective, and states that a local health economy resilience plan is being developed with local stakeholders to address this.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

### *Finance and governance*

- **Burton Hospitals NHS Foundation Trust:** In November 2011 Monitor found the trust in breach of its terms of authorisation due to the trust's financial position and board governance issues. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement undertakings from the trust. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh into the quality of care and treatment provided, and the trust was placed in special measures. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board and sufficient and effective leadership and management capacity and capability to enable it to address these issues.

In October 2015 the trust was removed from special measures in recognition of the improvements made since 2014, and the enforcement undertakings dated August 2013 were also withdrawn. At 2015/16 year end the trust remained subject to the April 2013 enforcement undertakings and the additional licence condition.

In its annual governance statement the trust states that, due to its current configuration and the additional costs arising from the use of agency staff, it

may take some time before it can achieve financial balance on a sustainable basis. It acknowledges that this is evidence of weaknesses in arrangements for effective financial planning. The trust also states that further to improvements since 2014 it will continue to implement all recommendations from external reviews (including Keogh and 'well-led') via a detailed action plan to address outstanding governance concerns.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Calderdale and Huddersfield NHS Foundation Trust: In January 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and associated board effectiveness and governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust cites provision of dual services across two sites, upgrade requirements and PFI contracts as the key causes of its underlying deficit. The trust states that actions are being taken to address financial and wider governance issues: for instance, by completing and implementing a 'well-led' governance review and the development of a strategic sustainability and turnaround plan.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Cambridge University Hospitals NHS Foundation Trust: In September 2015 Monitor accepted enforcement undertakings from the trust relating to its finances, to quality breaches identified by CQC and to governance concerns including failure to meet healthcare targets. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its governance issues, and the trust was placed in special measures. The undertakings were varied in October 2015 to include additional actions to strengthen the trust board and remained in place at 2015/16 year end.

In its annual governance statement the trust states that bed capacity remains a significant control issue, affecting its ability to deliver targets, the quality of patient care and its financial position. It also acknowledges the role played by weaknesses in risk management. However, the trust adds that detailed recovery plans are in place for securing improvement, including a quality

improvement plan to address issues identified by CQC, and a recovery plan for achieving financial resilience and sustainability.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- City Hospitals Sunderland NHS Foundation Trust: In August 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and to associated governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it sufficient and effective leadership and management capacity and capability to address its financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust recognises its financial performance issues. The trust states that it has implemented an enhanced governance process to streamline the managing and reporting of cost improvement plans, and set up a programme management office, supported by external expertise, to develop and manage the financial recovery programme.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Colchester Hospital University NHS Foundation Trust: In November 2013 Monitor imposed discretionary requirements on the trust in relation to issues identified by CQC relating to cancer services, board effectiveness and governance, and placed the trust in special measures. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board and sufficient and effective leadership and management capacity and capability to enable it to address its governance issues. In August 2014 Monitor accepted additional enforcement undertakings from the trust relating to quality governance. In February 2015 Monitor accepted further enforcement undertakings from the trust relating both to governance issues (particularly urgent and emergency services and medical care) and its finances.

At 2015/16 year end the trust remained subject to this enforcement action and in special measures. In April 2016 NHS Improvement and CQC recommended that the trust form a long-term partnership with Ipswich Hospital NHS Trust to secure sustainable services for patients, due to

ongoing concerns about culture, practice and leadership. CQC served two additional notices in April 2016.

In its annual governance statement the trust states that two out of three notices previously served by CQC have been lifted during the year, but that a further notice was served on the trust in December 2015 following a CQC inspection. It reports that in April 2016 CQC's Chief Inspector of Hospitals wrote to the Secretary of State outlining concerns about progress at the trust. The trust also states that its decision-making processes and sustainable resource deployment will be subject to further scrutiny and review in 2016/17. The trust states that it is co-operating with NHS Improvement and Ipswich Hospital NHS Trust to find a sustainable solution, and that it has recorded a significant deficit position for 2015/16 and budgeted deficit position for 2016/17.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Derby Teaching Hospitals NHS Foundation Trust: In September 2014 Monitor accepted enforcement undertakings from the trust relating to its failure to meet RTT and cancer targets and because of ongoing issues regarding its finances. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it continues to work towards compliance with the enforcement undertakings by implementing a financial recovery plan and RTT and cancer wait improvement plans. The trust adds that it is ensuring it has sufficient governance arrangements to enable the board to make progress, understand risks and hold individuals to account for delivering the relevant plans.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Doncaster and Bassetlaw Hospitals NHS Foundation Trust: In February 2016 Monitor accepted enforcement undertakings from the trust relating to its finances and associated financial governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement, the trust states that significant failures in financial control and governance came to light when misreporting was identified in October 2015. However, the trust states that it has responded quickly and decisively, commissioning external advisors to investigate the causes and responding to their recommendations for making improvements. The trust adds that a new financial oversight committee and interim director of finance have been appointed to improve systems of financial governance and control, and capacity within the finance team has been improved to ensure improvements can be delivered quickly.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- East Kent Hospitals University NHS Foundation Trust: In September 2014 Monitor accepted enforcement undertakings from the trust relating to governance concerns around quality, data quality and the trust's failure to comply with healthcare targets. The trust was also placed in special measures for failings in patient care and governance. In August 2015 Monitor accepted additional enforcement undertakings from the trust relating to its finances and associated governance issues. At 2015/16 year end the trust remained in special measures and subject to all the requirements listed above.

In its annual governance statement the trust states that it has been implementing the recommendations of a board governance review and that a programme of work has included the review of its performance management governance framework (including revised executive performance reviews), a board development plan, a review of financial governance, an improvement plan to deliver CQC recommendations, and the appointments of a new chair, new chief executive and dedicated risk manager. The trust states that it has made good progress this year, with its CQC rating improving from 'inadequate' to 'requires improvement', and that improvement continues.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Heart of England NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to governance concerns, including the trust's failure to comply with the A&E waiting-time target for a sustained period. In October 2014 Monitor accepted additional enforcement

undertakings from the trust, relating to breaches of additional access and outcome performance targets as well as broader governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address these issues. In January 2015 Monitor accepted further enforcement undertakings relating to breaches of the additional licence condition and the broader governance conditions of the licence. .

In October 2015 Monitor accepted further enforcement undertakings from the trust relating to its finances. At the same time Monitor imposed a requirement on the trust to appoint an interim chair and chief executive, using Monitor's powers to take action in response to breach of the trust's additional licence condition. At 2015/16 year end the trust remained subject to all requirements listed above.

In its annual governance statement the trust states its actions in 2015/16 to address the issues identified above. With regard to operational targets, it states that stretch trajectories have been agreed as part of the trust's sustainability and transformation funding plan, with the objective of achieving sustained performance in 2016/17. To address its financial concerns, internal audit reviews have been conducted to report on the trust's largest areas of overspend. A financial recovery plan is in place to return the trust to a balanced financial position, and improved financial controls have been implemented. The trust commissioned a governance evaluation and development programme in November 2015, in response to concerns that insufficient progress had been achieved against its existing quality improvement plan. It adds that a programme of board development has begun and will continue, and although this has already resulted in tangible progress the trust states that there is further work to be done.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Kettering General Hospital NHS Foundation Trust: In October 2012 Monitor found the trust in breach of its terms of authorisation for financial and governance concerns, including failure to meet a healthcare target. In April 2013 the trust was issued with its provider licence, and Monitor imposed discretionary requirements on the trust. At the same time Monitor imposed an additional licence condition requiring the trust to ensure it has sufficient board and management capacity and capability to address its issues. In April 2014 Monitor accepted enforcement undertakings from the trust relating to

governance concerns including failure to comply with a healthcare target and modified the additional licence condition.

In April 2015 Monitor accepted further enforcement undertakings from the trust relating to both its finances and its failure to comply with the discretionary requirements imposed by Monitor in April 2013 with regard to governance, including failure to meet a healthcare target. At the same time Monitor further modified the trust's additional licence condition to reflect the new undertakings. In May 2015 the trust was found by Monitor to have complied with the enforcement undertakings dated April 2014 relating to target breaches and safety. At 2015/16 year end the trust remained subject to all other requirements listed above.

In its annual governance statement the trust states that it has a five-year strategic plan and financial recovery plan to return it to a sustainable financial position. The trust also declares that it is taking steps to achieve compliance with the A&E target on a sustainable basis.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- King's College Hospital NHS Foundation Trust: Following its acquisition of the Princess Royal University Hospital (PRUH), financial, quality and operational issues affected the trust's ability to deliver its plans and operate on a sustainable basis. In April 2015 Monitor accepted enforcement undertakings from the trust in relation to its finances and sustainability. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it is developing and implementing an effective short-term recovery plan to deliver required improvements and a longer-term plan for ensuring services are improved in a sustainable way. The development of these plans has been enhanced by strengthened governance arrangements to deliver financial cost improvements without adversely affecting patient safety and quality. The trust adds that to address the risk and financial control implications, the frequency of full board meetings has been doubled and a new savings board has been established to ensure there is no increase to clinical risk or decrease in quality of care as a result of changes implemented.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its

use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Lancashire Teaching Hospitals NHS Foundation Trust: In June 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and associated financial governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective board and management capacity and capability to address its issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it has developed a short-term recovery plan and is currently developing a five-year sustainability plan with other organisations locally. The trust says that in August 2015 it revised its committee structure to strengthen financial governance and in October 2015 established a joint financial recovery board with its clinical commissioning group to improve openness and transparency and improve wider financial governance.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Medway NHS Foundation Trust: In April 2011 Monitor found the trust in breach of its terms of authorisation relating to its finances and associated governance concerns. In April 2013 the trust was issued with its provider licence, and Monitor accepted enforcement undertakings from the trust relating to its financial planning and target breaches. In August 2013 Monitor accepted additional enforcement undertakings from the trust relating to the Keogh review and quality governance, and the trust was placed in special measures. In November 2013 Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its issues. In February 2014 the trust was found to be in breach of the additional licence condition, and was consequently required to appoint a new interim chair and chief executive. At the same time Monitor imposed discretionary requirements on the trust relating to quality governance concerns, a further CQC inspection, management capacity and the trust's financial position.

In August 2015 it was agreed that the enforcement undertakings accepted in April and August 2013 were no longer appropriate and to the extent that they had not been complied with should cease to have effect. In addition, Monitor withdrew the discretionary requirements imposed in November 2013 and February 2014 on the basis that they were no longer appropriate. Monitor

accepted new enforcement undertakings from the trust relating to its finances and to a series of governance issues identified around care quality, serious incidents, mortality, data quality, corporate and clinical governance, and failure to meet healthcare targets. At 2015/16 year end the trust remained subject to the undertakings accepted in August 2015 and the additional licence condition of November 2013, and in special measures.

In its annual governance statement the trust states that a new chief executive was appointed in May 2015 around whom a new and restructured executive team has been recruited. The trust states that the board is now going through a period of stabilisation and there are signs it is starting to make a positive difference. As part of its improvement plan the trust is developing and implementing robust management structures and governance processes, and will also be undertaking a clinical and financial sustainability review. However, the trust acknowledges its 'inadequate' CQC rating and discloses that significant acceleration in the pace of work is needed. The trust states that it has submitted an improvement plan to CQC, and will embed the improvements in recent months and make further changes to continue to improve the quality of care at the trust with the aim of exiting special measures.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Milton Keynes Hospital NHS Foundation Trust: In 2010 Monitor found the trust in breach of its terms of authorisation following CQC concerns over the trust's maternity services and then, some months later, its financial deterioration. In April 2013 the trust was issued with its provider licence, and Monitor accepted enforcement undertakings from the trust relating to these issues. In December 2014 Monitor accepted additional enforcement undertakings from the trust in response to its finances and governance concerns, including its ongoing failure to meet a healthcare target. All requirements remained in place at 2015/16 year end.

In its annual governance statement the trust states that in 2015/16 it achieved the four-hour A&E target in three out of four quarters, met its financial improvement plan and complied with the agreed actions for improving its governance arrangements. It also discloses that it is participating fully in the wider review to provide a sustainable solution to healthcare provision in Bedfordshire and Milton Keynes.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Norfolk and Norwich University Hospitals NHS Foundation Trust: In April 2015 Monitor accepted enforcement undertakings from the trust relating to various governance issues, including failure to meet healthcare targets and concerns over management and board capacity. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board and sufficient and effective leadership and management capacity and capability address its issues. These remained in place at 2015/16 year end. In April 2016 Monitor accepted additional enforcement undertakings from the trust relating to its deteriorating finances and associated governance issues.

In its annual governance statement the trust states that it has drafted a financial recovery plan, including a cost improvement programme. It also states that it has volunteered to participate in a financial improvement programme commissioned by NHS Improvement. The trust adds that capacity and its ability to achieve key performance targets remain significant risk and control issues, but adds that the board is addressing these, in particular through its strategic plans.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Norfolk and Suffolk NHS Foundation Trust: In February 2015 Monitor accepted enforcement undertakings from the trust relating to several governance concerns. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board and sufficient and effective leadership and management capacity and capability to address its issues, and the trust was placed in special measures for failings in patient care and governance. In June 2015 Monitor accepted additional enforcement undertakings from the trust relating to its finances, requiring the trust to put together a credible financial recovery plan and to track the effectiveness of its financial management activity. The trust remained subject to the above enforcement action and in special measures at 2015/16 year end.

In its annual governance statement the trust states that it has control issues relating to care quality and a lack of sufficiently robust governance systems, structures and processes at board, management and operational levels. The trust declares that it has drawn up a quality improvement plan, overseen by a new improvement director, to address CQC's concerns and ensure a return to compliance with all healthcare standards. The trust adds that it has entered a 'buddying' arrangement with Nottinghamshire Healthcare NHS Foundation Trust to share good practice and provide learning opportunities, while an independent review of corporate governance has also been undertaken.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Northern Lincolnshire and Goole NHS Foundation Trust: In August 2013 Monitor accepted enforcement undertakings from the trust in relation to quality governance issues, and imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its governance these issues. Most governance issues were found to be resolved by the trust in 2014; the trust was removed from special measures in July 2014 and found to have complied with its undertakings in October 2014. The additional licence condition remained in place due to emerging financial governance issues. In April 2015 Monitor accepted enforcement undertakings from the trust relating to concerns over its deteriorating finances and associated governance issues. Both requirements remained in place at 2015/16 year end.

In its annual governance statement the trust states that, although financial sustainability is an issue for the trust, the enforcement action relates to wider system sustainability and does not relate to any concerns regarding the trust's leadership and governance systems and processes. The trust is satisfied that it has robust control mechanisms that are subject to robust and regular internal and external review.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Peterborough and Stamford Hospitals NHS Foundation Trust: In October 2011 Monitor found the trust in breach of its terms of authorisation due to concerns over its finances and associated governance issues. In February

2013 Monitor appointed a contingency planning team (CPT). In April 2013 the trust was issued with its provider licence, and Monitor accepted enforcement undertakings from the trust relating to its finances and failure to meet a healthcare target. The CPT's sustainability report in June 2013 said the trust was financially unsustainable in its current form. In September 2013 the CPT made recommendations for a recovery plan, and Monitor accepted additional enforcement undertakings from the trust in September 2013 relating to the implementation of these proposals.

After making some progress, in July 2015 the trust was found to be compliant with the enforcement undertakings from April and September 2013 specifically related to the CPT, finance function, delivery of an enhanced cost improvement programme and tender process. At the same time the remaining enforcement undertakings were deemed no longer appropriate, and were consequently withdrawn. Monitor accepted new enforcement undertakings from the trust relating to its deteriorating finances and failure to comply with the A&E target. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that it is developing a sustainability plan to minimise its reliance on Department of Health funding that will show how the trust's deficit would be managed by 2020 through cost improvement and potential changes in organisational form, including the development of collaborative work with Hinchingsbrooke Health Care NHS Trust. The trust states that the imperative for this work is the fact that the local health and care system itself faces a significant financial challenge.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Royal Berkshire NHS Foundation Trust: In December 2014 Monitor accepted enforcement undertakings from the trust relating to its finances and governance concerns including data quality, managerial oversight, risk management and CQC compliance. These remained in place at 2015/16 year end.

In its annual governance statement the trust states that improvement is required on the trust's overall system of controls, effectiveness and use of resources. The trust also identifies concerns about the quality of some of its underlying performance data. To address this, the trust has implemented a new data warehouse and begun a data assurance programme to assess data quality arrangements. The trust also states that in early 2016 it commissioned an external review of its compliance with the 'well led' framework,

recommendations from which will be considered to further strengthen the board committee structure.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Sherwood Forest Hospitals NHS Foundation Trust: In October 2012 Monitor found the trust in breach of its terms of authorisation due to concerns over its finances and governance arrangements. In April 2013 the trust was issued with its provider licence, and Monitor imposed discretionary requirements on the trust relating to these issues. In August 2013 Monitor accepted enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh into the quality of care and treatment, and the trust was placed in special measures.

In April 2015 the trust was found to have complied with the additional enforcement undertakings accepted in August 2013. The discretionary requirements imposed in April 2013 were withdrawn. At the same time Monitor accepted new enforcement undertakings from the trust, relating both to concerns over the trust's finances and to governance issues, including failure to meet key healthcare targets. Monitor also imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its governance issues. At the 2015/16 year end the trust remained in special measures and subject to both the enforcement undertakings and additional licence condition issued in April 2015.

In its annual governance statement the trust acknowledges that significant improvement in the pace and sustainability of quality developments, performance management and financial controls are paramount given outcomes in 2015/16. The trust sets out the actions taken in 2015/16 where weaknesses have been identified in terms of quality governance, patient experience, incident investigations and budget control. The trust also states that it will continue to progress cost reduction strategies and the project management of cost and quality improvement plans, as well as further enhancing performance management and assurance arrangements.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Southend University Hospital NHS Foundation Trust: In December 2011 Monitor found the trust in breach of its terms of authorisation as a result of governance concerns, including the trust's failure to comply with healthcare targets. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement undertakings from the trust. In June 2014 Monitor imposed discretionary requirements on the trust relating to governance concerns such as non-compliance with healthcare targets, including A&E and RTT. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure its board has sufficient capacity and capability to address its governance issues. In March 2016 Monitor accepted additional enforcement undertakings from the trust relating to its deteriorating finances and pricing breaches. All enforcement action listed above remained in place at 2015/16 year end. In April 2016 Monitor withdrew the element of the discretionary requirements relating to RTT given the abolition of the admitted and non-admitted standards in 2015.

In its annual governance statement the trust states that it experienced financial challenges in 2016/17, including clinical income being lower than planned, difficulties in recruiting staff – which led to additional agency expenditure – and a shortfall on delivering its transformation programme. These adversely affected its cash position. The trust reports that it has made progress on its board governance and supporting structures in response to a review following Monitor's enforcement action. It also states that it plans to increase its nurse establishment in response to a CQC inspection in early 2016 and that it needs to reduce its reliance on agency staff.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- South Tees Hospitals NHS Foundation Trust: In July 2014 Monitor accepted enforcement undertakings from the trust relating to financial issues and governance concerns, including failure to meet a key healthcare target. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports that it has largely completed the actions arising from a review of its governance arrangements, commissioned following Monitor's enforcement action. It states that it delivered almost all the savings required by its recovery plan for 2015/16 and

that further challenging savings are required for 2016/17 together with a programme of service transformation.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- St George's University Hospitals NHS Foundation Trust: In July 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and associated financial governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its financial governance issues. In March 2016, following a finding by Monitor that the trust was in breach of this condition and that it was important to strengthen the trust's board, the trust was required to appoint an interim chair. These enforcement actions remained in place at 2015/16 year end.

In its annual governance statement the trust states that it appointed a turnaround director in June 2015 to help manage these challenges and that progress has been made in delivering cost savings. The trust states it has completed 62 of the 76 recommendations arising from a forensic review of the deterioration in its 2014/15 financial position, but that it believes its governance structures will require further strengthening to address its challenges across finance, estates, performance and risk management.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Tameside Hospital NHS Foundation Trust: In March 2011 Monitor found the trust in breach of its terms of authorisation in relation to its finances and associated governance concerns. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement undertakings from the trust. At the same time Monitor imposed discretionary requirements on the trust relating to governance concerns around strategic planning. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment, and the trust was placed in special measures. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effectively functioning board, and sufficient and effective leadership and management capacity and capability to address these issues.

In November 2014 a contingency planning team (CPT) was appointed to support the trust's financial and strategic planning.

In September 2015 the trust was found to be fully compliant with both the enforcement undertakings dated April 2013 and the additional licence condition dated August 2013; the licence condition was withdrawn and the trust was removed from special measures. The trust was also found to be compliant with the majority of the enforcement undertakings dated August 2013, except for two paragraphs relating to the board and quality governance. The CPT's appointment meant that the discretionary requirements imposed in April 2013 were deemed no longer appropriate, and these were consequently withdrawn. Following the completion of the CPT's work, Monitor accepted new enforcement undertakings from the trust in September 2015 relating to its finances and associated financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports on the improvements identified by CQC that led to the trust being removed from special measures, but adds that oversight and improvement arrangements have been put in place to implement the additional recommendations coming out of this work.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Taunton and Somerset NHS Foundation Trust: In October 2015 Monitor accepted enforcement undertakings from the trust relating to its finances, in particular its failure to fully deliver on recurrent cost improvement plans, a lack of a long-term plan to secure clinical and financial sustainability, and associated financial governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports that savings plans have been agreed at a local and corporate level with processes in place to ensure that no cost reductions affect quality of care. The work to rectify the trust's financial position is ongoing. The trust also states that it is reviewing longer-term strategic risks including looking at working more closely with other organisations.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust: In January 2012 Monitor found the trust in breach of its terms of authorisation due to its finances and associated governance issues. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement undertakings from the trust. In August 2013 Monitor accepted additional enforcement undertakings from the trust relating to issues with financial planning, failure to meet a healthcare target and quality concerns identified by CQC. In October 2013 Monitor accepted further enforcement undertakings from the trust relating to these and other quality issues, and imposed discretionary requirements on the trust. The trust was also placed in special measures. A contingency planning team (CPT) was appointed by Monitor in September 2014 to investigate and help address the trust's financial concerns.

In May 2015 the CPT completed its work. In August 2015 the trust was found by Monitor to have complied with the terms of the discretionary requirements imposed in October 2013 and the trust was removed from special measures. At the same time it was deemed, following the CPT's work, that the enforcement undertakings accepted in August 2013 were no longer appropriate, and these were consequently withdrawn. In August 2015 Monitor accepted new enforcement undertakings from the trust to support implementation of the CPT's findings, recommendations and associated actions. At 2015/16 year end the trust remained subject to the enforcement undertakings dated April 2013, October 2013 and August 2015.

In its annual governance statement the trust states that it has made improvements in its care quality and quality governance, which led to an improved CQC report in June 2015 and that the trust has introduced a quality improvement group to oversee further improvements since this report. The trust also reports that it is working strategically with partners on transformational plans to secure the sustainability of the local healthcare system.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- University Hospitals of Morecambe Bay NHS Foundation Trust: In November 2011 Monitor found the trust in significant breach of its terms of authorisation following CQC concerns over maternity services. In April 2013 the trust was issued with its provider licence and Monitor accepted enforcement undertakings from the trust relating to its finances and to governance concerns, including failure to meet healthcare targets. At the same time

Monitor imposed discretionary requirements on the trust relating to these governance concerns. In July 2014 Monitor accepted additional enforcement undertakings from the trust relating to governance and quality issues, and the trust was placed in special measures. In March 2015 Dr Bill Kirkup CBE made recommendations to the trust to reduce risk and improve the quality of maternity services.

In September 2015 the enforcement undertakings accepted and discretionary requirements imposed were deemed no longer appropriate, and these were consequently withdrawn. At the same time Monitor accepted new enforcement undertakings from the trust relating to its finances and a range of governance concerns including care quality, emergency care and maternity services. In February 2016 the trust was removed from special measures and the trust's enforcement undertakings were amended to reflect this and update the undertakings relating to quality. At 2015/16 year end the trust remained subject to the enforcement undertakings accepted in September 2015 as amended in February 2016.

In its annual governance statement the trust reports on the results of its CQC inspection in July 2015, which showed improvement and led to the trust exiting special measures in early 2016. The CQC inspection continues to require improvement in some areas, and the trust discloses that it has actions plans in place. The trust subsequently commissioned an external review of its governance and states that it has made improvements in its quality governance arrangements. It adds that it is addressing its financial sustainability challenges, including participating in a programme looking at new care models, comprehensive cost improvement programmes and applying for price modifications for what it is paid over the next year. It also has a longer-term plan to bring the trust back into balance by addressing its structural deficit.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- University Hospital of South Manchester NHS Foundation Trust: In May 2014 Monitor accepted enforcement undertakings from the trust relating to its finances and governance concerns, including failure to comply with a healthcare target. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports that it has identified most of its required cost improvement programmes for 2016/17 and that it is participating in the financial improvement programme with NHS Improvement,

designed to identify ways to improve the trust's financial position. The trust also declares that it has an action plan in place following an external review of board governance.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Warrington and Halton Hospitals NHS Foundation Trust: In August 2015 Monitor accepted enforcement undertakings from the trust relating to its deteriorating finances and associated financial governance concerns. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports that it has strengthened financial governance with increased scrutiny of its finances. The trust states that there is an increased focus on cost reduction opportunities, reviewing cash, and enhanced monitoring of temporary staff spend.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Wirral University Teaching Hospital NHS Foundation Trust: In August 2015 Monitor accepted enforcement undertakings from the trust relating to its finances and associated financial governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has sufficient and effective leadership and management capacity and capability to address its finance and governance issues. These remained in place at 2015/16 year end.

In its annual governance statement the trust reports that it has improved its recruitment of key substantive positions and that although financial challenges remain, there is increased rigour now in place and improvement is being seen in key areas.

### **Review of individual NHS foundation trusts' significant internal control weaknesses: other significant issues disclosed by foundation trusts and/or auditors**

Monitor's FT ARM does not direct foundation trusts on which internal control matters should be defined as 'significant'; this is a matter for each foundation trust's board.

The following foundation trusts have disclosed one or more significant control weaknesses in their annual governance statement and/or have received qualified audit certificates but were not subject to enforcement action by Monitor during the year. It should be noted that some trusts locally consider all healthcare target breaches to be significant control issues, but not all do.

- Ashford and St Peter's Hospitals NHS Foundation Trust: In its annual governance statement the trust reports a significant internal control issue relating to its failure to meet the four-hour A&E waiting time target. The trust states that it has a good understanding of the internal and external issues that led to these failures and reports that comprehensive action plans are underway to address them.
- Birmingham Women's NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement it reported that it reviewed its financial internal control systems. The review showed potential weaknesses in the systems of internal control which the audit committee and board has since addressed. This included the creation of an investment committee to determine where investment should be made and greater clarity about accountability for implementing decisions.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to concerns regarding weaknesses in financial planning and project costs that were written off during the year. In April 2016 NHS Improvement opened an investigation due to governance and financial sustainability concerns. This investigation was closed in June 2016 and no enforcement action was taken.

- Central Manchester University Hospitals NHS Foundation Trust: In its annual governance statement the trust reported significant control issues regarding RTT data quality and a lack of full audit trail for post validation adjustments to the A&E indicator. The trust reports that it has implemented additional training and improved performance reporting, as well as formal sign off processes at period ends for the RTT data. The trust also reports that it recognises there are qualitative improvements in administrative practice that can be made regarding the A&E indicator.
- County Durham and Darlington NHS Foundation Trust: In its annual governance statement the trust reports a range of internal control weaknesses that it considers significant. The trust points to the head of internal audit's opinion that highlights a number of areas where controls require improvement. The trust refers to an investigation opened by Monitor in December 2015 into the trust's financial position to determine whether further action is required to

strengthen financial governance and support. The trust also highlights the CQC inspection report conducted in February 2015; this resulted in an overall rating of 'requires improvement'. The trust outlines the action plans that have, or are being, developed and implemented to strengthen controls in these areas.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to Monitor's investigation of the trust.

- Dorset County Hospital NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement it reports that its external auditors are concerned about the sustainability of its finances. The trust reports that it accepts this position but anticipates that a longer term solution will be provided by implementing the trust's strategy, including an acute care vanguard project, working towards integrated models of care and the review of clinical services in Dorset.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to concerns regarding the trust's financial sustainability.

- Dorset Healthcare University NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement it has reported that its overall rating following a CQC inspection in July 2015, was 'requires improvement'. The trust reports that action is being taken to address those areas in which progress in implementing plans needs to be improved.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the CQC inspection findings.

- Great Ormond Street Hospital for Children NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement, it has reported that it is unable to report on performance against the national standard for RTT. Following a review of the RTT systems, the board suspended RTT and diagnostics reporting in September 2015. The trust reports that it has developed an improvement plan and determined resources necessary to deliver the plan.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the issues with 18 weeks Referral to Treatment (RTT) data and reporting.

- Homerton University Hospital NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement, it has reported a deterioration in financial performance. It reports a strengthening of its governance around cost control and cost improvements and has increased the in-year target for savings to allow for in-year slippage.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the trust's financial performance.

- James Paget University Hospitals NHS Foundation Trust: In its annual governance statement the trust reports various significant internal control issues. The internal audit programme identified some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of the trust's objectives at risk. In relation to temporary staffing only, the opinion of internal audit is 'major improvements are required' to improve adequacy, consistency and effectiveness of governance, risk management and control in relation to temporary staffing. The trust states that it is aware of the significant control issues and has developed action plans with clear ownership of the issues together with its monthly review of governance.
- Liverpool Women's NHS Foundation Trust: In April 2016 Monitor accepted enforcement undertakings from the trust relating to concerns over its finances.

While the trust has not disclosed any significant control weaknesses in its annual governance statement, it has disclosed that it was subject to formal investigation by Monitor (now NHS Improvement) due to deterioration of its finances. The trust reports that NHS Improvement acknowledged that the trust has taken steps to address its financial challenges, but had stepped in to determine what additional support it could offer the trust. The trust reports that it will comply with the requirements of the enforcement undertaking and report compliance through its governance structure.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its

use of resources. This relates to the enforcement undertaking accepted by Monitor in April 2016.

- North Tees and Hartlepool NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement, it has disclosed that it was given an overall rating of 'requires improvement' following a CQC inspection in July 2015. The trust reports that it developed an action plan and a significant number of the recommendations have been completed with further work progressing in quarter 1 of 2016/17.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the CQC rating of 'requires improvement' following inspection.

- Poole Hospital NHS Foundation Trust: While the trust has not disclosed any significant control weaknesses in its annual governance statement, it has stated that it is working with partners to develop new models of care and reconfiguring services so that clinically and financially sustainable arrangements are in place across Dorset.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the auditor's concerns around the trust's financial position and ongoing financial sustainability.

- Royal Surrey County Hospital NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it has acknowledged that the emergency department was under stress most of the year with unprecedented demand, that discharging patients proved challenging and performance against cancer waiting time targets has been under pressure as demand grew. The trust also reports that it was under financial pressure and ended the year in deficit for the first time. The trust states that its efficiency and effectiveness programme has included the appointment of a turnaround director as part of a commitment to turn around the financial situation.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to concerns regarding 18 weeks RTT and A&E indicator data quality, the financial position and ongoing financial sustainability, and that NHS Improvement has opened an investigation. In April 2016 NHS

Improvement opened an investigation due to governance and financial sustainability concerns at the trust, following breaches of the A&E and cancer targets and a deterioration in the trust's financial position.

- Somerset Partnership NHS Foundation Trust: In its annual governance statement the trust reports significant control issues in respect of the findings of a CQC inspection that the trust 'requires improvement' and that it was issued with a warning notice concerning its learning disability services for adults. The trust reports that the CQC acknowledged it had undertaken actions to revise its governance and risk systems, but these were too early in implementation for them to have been fully effective at the time of the inspection.
- South Tyneside NHS Foundation Trust: In its annual governance statement the trust reports significant control issues in respect of the A&E waiting times standard and financial performance, given that the trust will plan for a deficit in 2016/17. Actions have been put in place to support the trust's proposed A&E performance trajectory. The trust reports that it expects to have available resources to sustain the deficit in the short term while it delivers the first phases of an acute clinical review programme that will enable the transformation of services provided by the trust and a neighbouring foundation trust, to provide longer term sustainability of local health services.
- South Western Ambulance Service NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it identifies issues with the NHS 111 service, and states that a scheduled CQC inspection has been brought forward to March 2016 and is awaiting the report from the inspection. It is developing an action plan to respond to any recommendations that come from the external reviews.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to Monitor placing the trust under review in March 2016, following potential governance concerns about the trust's 111 service, and the unknown outcome of a CQC inspection. NHS Improvement opened an investigation in May 2016.

- Surrey and Borders Partnership NHS Foundation Trust: In its annual governance statement the trust discloses a significant control issue relating to a delay in some of its reporting ability. This is the result of implementing a new clinical information system, which has reduced the trust's ability to report on some of the key performance indicators from the new system.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to concerns over the quality of data in the quality report.

- Torbay and South Devon NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement it identifies issues relating to its failure to meet the four hour A&E target during the year. The trust also states that it was subject to CQC inspections in February 2016 and received official notification outlining possible enforcement action on 1 March 2016. The trust responded on 3 March 2016 highlighting improvements that had already been made or were being implemented with immediate effect or within March 2016.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the trust failing to meet the A&E target during the year and the notification of possible enforcement action by the CQC.

- University College London Hospitals NHS Foundation Trust: In its annual governance statement the trust reports significant control issues relating to the 62 day cancer target, four-hour A&E target and five never events. The trust did not achieve the 62-day wait for cancer treatment in any quarter. In response the trust has agreed a full recovery plan with commissioners and Monitor. There is an action plan in place relating to A&E waiting targets and the trust reports the introduction of a new A&E front door screening model in mid-February and increased ambulatory care capacity. The trust reports that immediate actions were put in place for all never events to reduce the risk of recurrence, and that comprehensive investigations were or are being undertaken into all never events.
- West Suffolk NHS Foundation Trust: In its annual governance statement the trust discloses a significant control issue relating to financial sustainability. The trust states that it continues to suffer the adverse impact of a doubling of the number of delayed transfers of care and associated increase in the number of 'out-of-hospital' delays, which is increasing costs and reducing ability to deliver its income plan. The trust states it is participating in system-wide discussions focusing on the creation of an integrated care organisation.

The external auditor has qualified the use of resources conclusion for the year ended 31 March 2016 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its

use of resources. This relates to the auditor's concerns around the trust's financial position and ongoing financial sustainability.

## **Financial standing**

All foundation trusts received unqualified true and fair audit opinions but auditors at 29 foundation trusts included an 'emphasis of matter' paragraph within the audit report relating to going concern or financial performance. The foundation trusts that have an 'emphasis of matter' for going concern or financial performance within their audit report are listed in the accounting policies for the consolidated accounts in Note 1.23.

Twenty-six foundation trusts have required cash financial support from DH in 2015/16 to support the continued provision of services to patients. The trusts that have received interim support funding in 2015/16 are listed below. In some cases the underlying issues are referred to in Monitor's enforcement action detailed above:

- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Burton Hospitals NHS foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Doncaster and Bassetlaw Hospitals NHS Foundation Trust
- Great Western Hospitals NHS Foundation Trust
- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Lancashire Teaching Hospitals NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Medway NHS Foundation Trust
- Northern Lincolnshire and Goole NHS Foundation Trust
- Milton Keynes Hospital NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Royal Surrey County Hospital NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- South Tees Hospitals NHS Foundation Trust
- Southend University Hospital NHS Foundation Trust
- St George's University Hospitals NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust
- The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust.

## Quality reports

In 2015/16 each foundation trust was required to obtain a limited assurance report from its external auditor on the content of its quality report and two mandated indicators to be included in the quality report. This reported on whether anything has come to the auditor's attention that led them to believe that the quality report's content was not prepared in line with the [NHS foundation trust annual reporting manual 2015/16](#) or was inconsistent with the other information sources detailed in the guidance. In reporting on mandated indicators, the auditors are forming a view on data quality rather than the quality of services more generally at a trust.

The assurance over mandated indicators followed a selection of indicators prescribed by Monitor, with different indicators applicable to different types of foundation trust. In 2014/15 Monitor mandated the '*percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period*' indicator for assurance at foundation trusts providing mostly acute or specialist services. This also included community trusts where this indicator was relevant. Monitor selected this indicator following the National Audit Office's concerns about data quality in this area in a report issued in January 2014. This indicator was reselected by Monitor for assurance at relevant trusts in 2015/16. For 2015/16 Monitor also mandated the indicator '*percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge*' for assurance at relevant trusts for the first time.

All foundation trusts<sup>6</sup> except one received their limited assurance report in respect of the content and consistency of their quality reports.

66 foundation trusts received a modification to their limited assurance report in respect of one or both of the mandated indicators or had an emphasis of matter included in their assurance report, with details below:

- 52 trusts received a modified auditor opinion with regard to the '*percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period*' indicator
- 28 trusts received a modified auditor opinion with regard to the '*percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge*' indicator
- 6 trusts received a modified auditor opinion with regard to the '*minimising delayed transfers of care*' indicator
- 4 trusts received a modified auditor opinion with regard to other indicators.

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<sup>6</sup> Mid Staffordshire NHS Foundation Trust ceased to provide services as at 1 November 2014 and was therefore not required to produce a quality report for 2015/16.

## **Information governance**

108 foundation trusts have reported a control weakness in respect of information governance during the year. A range of information governance incidents have been identified in the year and include:

- accidental disclosure of patient data
- losses of paper medical records
- losses and thefts of laptop computers
- accidental destruction of paper medical records
- unauthorised / inappropriate access to confidential data
- corruption or inability to recover electronic data
- letters sent to the wrong address
- non-secure disposal of confidential data

Of these 108 foundation trusts, 90 reported serious incidents relating to information governance during the year.

In most cases where details were disclosed, foundation trusts stated that they have taken appropriate disciplinary action, prepared and implemented action plans and continue to monitor risks.

Jim Mackey  
Chief Executive  
5 July 2016

## **The certificate of the Comptroller and Auditor General to the Houses of Parliament**

I certify that I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2016 under the Health and Social Care Act 2012. The financial statements comprise the Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of Monitor and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the consolidated accounts and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, NHS Improvement provider sector context, Review of NHS foundation trust financial performance and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

### **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the NHS foundation trust sector as at 31 March 2016 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health and Social Act 2012 and Secretary of State directions issued thereunder.

## **Opinion on other matters**

In my opinion:

- the information given in the Foreword, the NHS Improvement provider sector context, and the Review of NHS foundation trust financial performance for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

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

**Sir Amyas C E Morse**

**Comptroller and Auditor General**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

12 July 2016

# The explanatory report of the Comptroller and Auditor General to the Houses of Parliament

## Introduction

1. In December 2015, I reported on the 'Sustainability and financial performance of acute hospital trusts', which highlighted the severe, and worse than expected, decline in the financial position in provider sector finances. As I have previously reported, this trend is not sustainable. The financial sustainability of the provider sector should be assessed against the wider backdrop of the broader health and social care sector financial position and the need to close the gap between available resources and patient needs.
2. I continue to report on a range of issues in the health sector which examined the financial pressure being faced by the NHS. Most recently, I highlighted that:
  - as well as the negative impact on individuals' health, there is a financial implication to delays in discharging older people from acute care<sup>7</sup>;
  - NHS England has reduced tariff prices paid to providers in order to tackle the increasing costs of commissioning specialist services. This may, however, affect the financial sustainability of providers<sup>8</sup>; and
  - while progress is being made by the Department of Health and NHS England to improve access to mental health services, additional funding is being met from existing clinical commissioning group budgets. This could have impact on the financial sustainability of providers.
3. Having now completed my financial audits of the 2015-16 Department of Health group accounts, including the Consolidated Foundation Trust financial statements, I consider it appropriate to provide an overview of the department's actions to address the challenges. This report focuses on the foundation trust sector and is set out in two parts. Part one provides an overview of the foundation trust sector and the financial pressures it faces. Part Two summarises my financial audit approach. I have reported separately on the Department of Health's resource accounts.

## Part One

### Sector overview

4. NHS foundation trusts make up a significant component of the Department of Health group and are a large part of the provider sector, which also includes NHS trusts, and other providers. NHS foundation trusts are self-governing, have greater financial and operational freedoms from government than NHS trusts, and are directly accountable to Parliament. The NHS foundation trust sector includes five types of trust, providing different services: acute, ambulance, community, mental health and specialist. Most hospitals in England are foundation trusts.
5. During the year there were 153 foundation trusts and 85 NHS trusts. Foundation trusts earn most of their operating income from clinical commissioning groups and NHS England, earning £39.9 billion compared to £7.1 billion from other sources. In return, foundation trusts deliver the

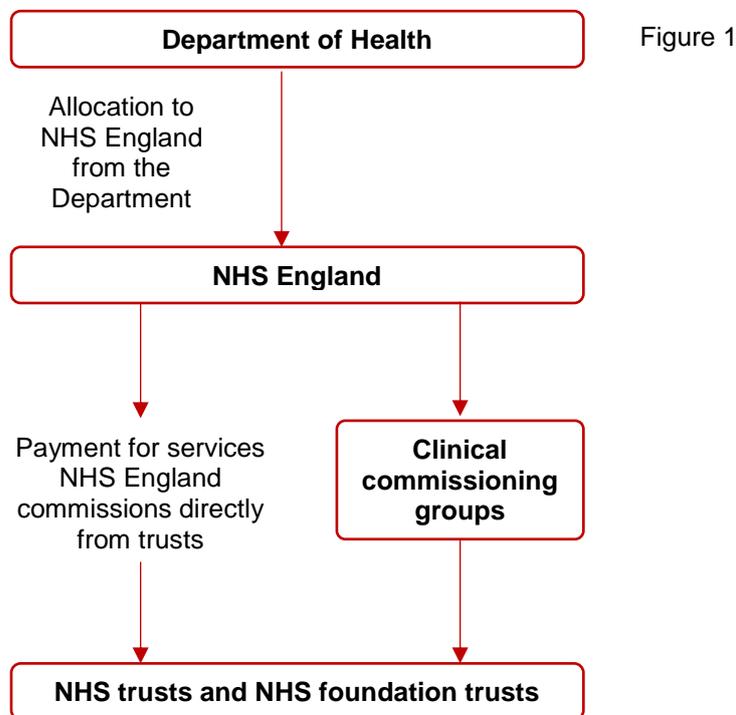
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<sup>7</sup> <https://www.nao.org.uk/wp-content/uploads/2015/12/Discharging-older-patients-from-hospital-Summary.pdf>

<sup>8</sup> <https://www.nao.org.uk/report/the-commissioning-of-specialised-services-in-the-nhs/>

healthcare they have been commissioned to provide, incurring some £47.6 billion of operating expenditure in doing so.

- Figure 1 below shows how funding for NHS clinical activity flows through the system from the Department of Health, down to the provider sector<sup>9</sup>.



### Foundation trusts face ongoing financial pressure

- Foundation trusts began the year in a difficult position. For the first time in 2014-15, they collectively reported a loss before impairments of £345 million, and a post-impairments deficit of £507 million. This represented a continuing decline from 2012-13. This is against a backdrop of continued pressure on the NHS financial position.
- As the 2015-16 financial statements show, the financial position of foundation trusts continued to deteriorate. The total net deficit is £1.1 billion before impairments and, after impairments, is a deficit of £1.5 billion. This is the second year in which the foundation trust sector has reported a net deficit, and indicates the deepening financial challenge faced by the sector.
- In 2015-16, the number of foundation trusts reporting a deficit increased again to 101, compared to 78 in the previous year. 29 foundation trusts (19%) received emphasis of matter paragraphs in their audit reports relating to the going concern assumption or financial performance (2013-14: 21 of 153, 14%).
- The rise in deficit is driven by the increase in operational costs, caused mainly by underlying increases in demand. The majority of foundation trusts' expenditure is made up of staff costs. As I

<sup>9</sup> There is also a funding relationship between the Department of Health and providers, where the Department provides some funding directly

reported in *Managing the supply of NHS clinical staff in England*<sup>10</sup>, between 2012-13 and 2015-16, trusts (including foundation trusts) planned to make recurrent pay savings of around £1 billion each year, although actual savings consistently fell well short of this amount. The financial statements show that, for foundation trusts, staff costs overall have risen to £30.3 billion (£27.9 billion in 2014-15). Agency staff costs have increased to £2.1 billion (£1.8 billion 2014-15). Cost increases will also have an impact on cash flows. Overall, cash balances held by foundation trusts have fallen to £3.5 billion (£4.1bn in 2015-16).

## Addressing the immediate financial challenge

11. As stated above, I have continued to examine and highlight the challenges faced by the health sector against the backdrop of broader public sector financial pressures.
12. Health is an area of public spending that the government has protected in recent years compared with most other areas of government spending. However, finances have become increasingly tight, with health funding rising at a historically low rate of 1.8% in real terms between 2010-11 and 2014-15. The NHS Five Year Forward View, published in October 2014, estimated that there would be a £30 billion gap between resources and patient needs by 2020-21 and set out proposed changes to the provision of healthcare services to meet this gap.
13. During 2015-16, there have been measures taken at a national level to tackle the immediate financial challenge faced by providers:
  - the Spending Review published in November 2015 announced an extra £5.4 billion available for NHS provider trusts in 2016-17. £1.8 billion comprises the Sustainability and Transformation Fund, of which £1.6 billion would be passed to NHS trusts and foundation trusts who conduct emergency care, and is conditional on those trusts agreeing and achieving their control totals for resource expenditure in 2016-17, and complying with associated conditions. £3.6 billion to be distributed via commissioning allocations and related budgets, meaning it is reflected in an overall uplift in tariff prices, which should result in higher income for providers.
  - In order to tackle the increasing level of temporary staff costs in the provider sector, NHS Improvement introduced caps on agency staff costs. NHS Improvement estimates that since the introduction of the agency cap, foundation trusts have saved £300 million. I have not validated this estimate and without data to understand the impact on staffing or activity levels, it is too early to evaluate the impact of these new measures.
  - The Department of Health has provided interim cash support to providers during the year, as noted in the 'Review of NHS foundation trust financial performance 2015/16' section. This support should normally precede a long term recovery plan.
  - In January 2016, Monitor and the NHS Trust Development Authority (TDA) wrote to all NHS providers instructing them to consider a number of areas in preparing their annual accounts, with a view to improving financial outturn. While some of this focused on identifying genuine savings, much of it focused on looking for one-off accounting adjustments which could improve the bottom line in 2015-16. While these adjustments are in line with accounting standards, the guidance was focused on finding adjustments with a positive impact, rather than a full review of all areas which could result in adjustments which have both a positive and negative impact on their final outturn position.

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<sup>10</sup> <https://www.nao.org.uk/wp-content/uploads/2016/02/Managing-the-supply-of-NHS-clinical-staff-in-England.pdf>

## Addressing the financial challenge over the long term

14. In our December 2015 report, *Sustainability and financial performance of acute hospital trusts*, we found that the deterioration of the financial position of NHS trusts and NHS foundation trusts had been severe and worse than expected.
15. In January 2016, the Committee of Public Accounts (PAC) held a hearing with witnesses from the national bodies including the Department of Health, NHS England and NHS Improvement. The Committee's report, published in March 2016, concluded overall that "There is not yet a convincing plan in place for closing the £22 billion efficiency gap and avoiding a 'black hole' in NHS finances." and recommended "The Department of Health, NHS England and NHS Improvement should report to us jointly in September 2016 on their progress with implementing the NAO's recommendations and the further recommendations we make in this report."
16. I am aware that NHS bodies in England are working on their Sustainability and Transformation Plans, covering the period October 2016 to March 2021. Commissioners and providers of NHS and social care should be working together, across 44 geographical locations, to agree how they will provide healthcare services on a secure and balanced financial footing. In light of the immediate and long term financial challenges, these plans will need to be ambitious yet realistic in order to establish a firmer financial footing.
17. I will return to the issue of financial sustainability in the NHS in England in a report this autumn. This report will build on our previous work and examine whether the NHS is on track to achieve financial sustainability, focusing in particular on: the financial performance of NHS bodies; plans for long-term financial sustainability; and the actions taken by the Department and its arm's length bodies to support local NHS bodies to achieve financial sustainability.

## Part two

### Overview of my financial audit

18. Monitor, which is now part of NHS Improvement, is the legal entity responsible for authorising, monitoring and regulating NHS foundation trusts and, under the Health and Social Care Act 2012, for preparing the consolidated financial statements for NHS foundation trusts (the Consolidated Accounts). The Consolidated Foundation Trust statements are an aggregation of the 153 NHS foundation trusts which had been licensed during the year to 31 March 2016.
19. Monitor is not a 'parent' entity in the consolidation as defined under International Financial Reporting Standards. The Accounting Officer for Monitor does not have any responsibility for the foundation trust sector either collectively or for any individual foundation trust; this is the responsibility of each foundation trust's chief executive who is also the individual Accounting Officer.
20. Foundation trusts appoint their own external auditors, who are required to report to the foundation trust's council of governors and board of directors on the results of their independent audit of the financial statements. Foundation trust's annual reports and accounts are laid in Parliament. The external auditors for each individual trust are required to provide an opinion on the truth and fairness of the financial statements and to report whether or not they have been able to satisfy themselves that the foundation trust is using its resources economically, efficiently and effectively.
21. The individual external auditors are required to follow the Code of Audit Practice which I have issued under the Local Audit and Accountability Act 2014. Auditors plan and perform their audit in

compliance with the requirements of the Code and with relevant professional and quality control standards. The auditor's work is risk-based and proportionate and is designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. The auditor conducts their work economically, efficiently and effectively, and in as timely a way as possible.

22. As the statutory auditor for the Consolidated Foundation Trust financial statements, I am required to report whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and whether they are true and fair. Unlike the individual foundation trust auditors, I am not required to provide an opinion on the economic, efficient and effective use of resources on the overall consolidated account. I instead use my reporting powers to report on the health sector. Unlike the foundation trust auditors, I am also required to provide a regularity opinion, to confirm whether or not the income and expenditure has been applied in accordance with Parliamentary intention.
23. I have certified the Consolidated Foundation Trusts with an unqualified opinion. In order to reach my opinion, I take a group audit approach as set out by International Standard on Auditing 600 *Special considerations - audits of group financial statements* and I consider the landscape of opinions across the foundation trusts. In particular, I have noted that all of the financial statements received unqualified true and fair audit opinions. There has however been an increase in the number of Emphasis of Matter paragraphs issued by the individual auditors. In 2015-16, 29 foundation trusts received Emphasis of Matters in their opinions compared to 21 in 2014-15. These related to going concern or financial performance whereby individual auditors judged that the disclosures were fundamental to the users' understanding of the financial statements and should therefore be highlighted. Monitor has set out its consideration in respect of going concern in note 1.23.

## **Conclusion**

24. I have noted the focus of the Department of Health and national health bodies on addressing the immediate issue of financial outturn for 2015-16. This is set out in more detail in my report on the Department of Health resource account. As I have reported previously, the NHS faces an unprecedented financial challenge which requires long term strategic measures to address. The Department and its national bodies have taken steps toward developing longer term strategic plans over the period of the current Parliament. I will return to these challenges, reviewing the Department's progress in developing and implementing these plans in my next report in the autumn.

**Sir Amyas C E Morse**

**Comptroller and Auditor General**

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

12 July 2016

## Statement of Comprehensive Income

	Note	2015/16			2014/15		
		Before impairments and gains/ (losses) on transfers of absorption £m	Revaluations, impairments and gains/ (losses) on transfers by absorption £m	After impairments and gains/ (losses) on transfers by absorption £m	Before impairments and gains/ (losses) on transfers of absorption £m	Revaluations, impairments and gains/ (losses) on transfers by absorption £m	After impairments and gains/ (losses) on transfers by absorption £m
Operating income from patient care activities	3	41,936	-	41,936	38,931	-	38,931
Other operating income	4	4,752	266	5,018	4,438	388	4,826
<b>Total operating income from operations</b>		<b>46,688</b>	<b>266</b>	<b>46,954</b>	<b>43,369</b>	<b>388</b>	<b>43,757</b>
Operating expenses	5, 6	(46,807)	(763)	(47,570)	(42,819)	(633)	(43,452)
<b>Operating surplus/(deficit) from operations</b>		<b>(119)</b>	<b>(497)</b>	<b>(616)</b>	<b>550</b>	<b>(245)</b>	<b>305</b>
Finance income	10	22	-	22	23	-	23
Finance expenses	11	(469)	-	(469)	(436)	-	(436)
PDC dividends payable		(528)	-	(528)	(510)	-	(510)
<b>Net finance costs</b>		<b>(975)</b>	<b>-</b>	<b>(975)</b>	<b>(923)</b>	<b>-</b>	<b>(923)</b>
Share of profit of associates/joint arrangements		(4)	-	(4)	5	-	5
Gains arising from transfers by absorption	34	-	129	129	-	193	193
Losses arising from transfers by absorption	34	-	(12)	(12)	-	(110)	(110)
Movement in the fair value of investment property and other investments		11	-	11	24	-	24
Corporation tax expense		(1)	-	(1)	(1)	-	(1)
<b>Surplus/(deficit) for the year</b>		<b>(1,088)</b>	<b>(380)</b>	<b>(1,468)</b>	<b>(345)</b>	<b>(162)</b>	<b>(507)</b>
<b>Other comprehensive income/(expenditure)</b>							
<b>Will not be reclassified to income and expenditure:</b>							
Net impairments charged to the revaluation reserve	8	-	(776)	(776)	-	(276)	(276)
Revaluations		778	-	778	898	-	898
Remeasurements of the net defined benefit pension scheme liability/asset	28	7	-	7	(6)	-	(6)
Other reserve movements		2	-	2	(2)	-	(2)
<b>May be reclassified to income and expenditure when certain conditions are met:</b>							
Fair value gains/(losses) on available-for-sale financial investments		(4)	-	(4)	5	-	5
<b>Other comprehensive income/ (expense)</b>		<b>783</b>	<b>(776)</b>	<b>7</b>	<b>895</b>	<b>(276)</b>	<b>619</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>(305)</b>	<b>(1,156)</b>	<b>(1,461)</b>	<b>550</b>	<b>(438)</b>	<b>112</b>

Discontinued operations are not material so are not shown separately on the face of the Statement of Comprehensive Income. Note 12 provides further details.

## Statement of Financial Position

		31 March 2016 £m	31 March 2015 £m
	<b>Note</b>		
<b>Non-current assets</b>			
Intangible assets	13	541	435
Property, plant and equipment	14	26,979	25,821
Investment property	15	155	134
Investments in associates (and joint arrangements)	15	52	29
Other investments	15	183	195
Trade and other receivables	17	273	266
Other financial assets	18	3	5
Other assets		4	3
<b>Total non-current assets</b>		<b>28,190</b>	<b>26,888</b>
<b>Current assets</b>			
Inventories	16	580	540
Trade and other receivables	17	2,837	2,680
Other financial assets	18	11	13
Non-current assets for sale and assets in disposal groups	19	76	105
Cash and cash equivalents	20	3,462	4,085
<b>Total current assets</b>		<b>6,966</b>	<b>7,423</b>
<b>Current liabilities</b>			
Trade and other payables	21	(5,142)	(4,648)
Other liabilities	22	(539)	(532)
Borrowings	23	(337)	(322)
Other financial liabilities		(1)	(1)
Provisions	25	(268)	(277)
Liabilities in disposal groups		-	-
<b>Total current liabilities</b>		<b>(6,287)</b>	<b>(5,780)</b>
<b>Total assets less current liabilities</b>		<b>28,869</b>	<b>28,531</b>
<b>Non-current liabilities</b>			
Trade and other payables	21	(18)	(25)
Other liabilities	22	(142)	(192)
Borrowings	23	(7,925)	(6,564)
Other financial liabilities		(3)	(3)
Provisions	25	(311)	(321)
<b>Total non-current liabilities</b>		<b>(8,399)</b>	<b>(7,105)</b>
<b>Total assets employed</b>		<b>20,470</b>	<b>21,426</b>
<b>Financed by</b>			
Public dividend capital		14,710	14,352
Revaluation reserve		5,807	5,633
Available for sale investments reserve		-	-
Other reserves		95	79
Merger reserve		2	2
Income and expenditure reserve		(511)	995
Non-controlling interest		-	-
Charitable fund reserves	32	367	365
<b>Total taxpayers' equity</b>		<b>20,470</b>	<b>21,426</b>

The notes on pages 73 to 130 form part of these accounts.

Jim Mackey  
Chief Executive  
5 July 2016

## Statement of Changes in Equity for the year ended 31 March 2016

	Note	Public dividend capital £m	Revaluation reserve £m	Other reserves £m	Merger reserve £m	Income and expenditure reserve £m	NHS charitable fund reserves £m	Total £m
<b>Taxpayers' and others' equity at 1 April 2015 - brought forward</b>		<b>14,352</b>	<b>5,633</b>	<b>79</b>	<b>2</b>	<b>995</b>	<b>365</b>	<b>21,426</b>
<b>At start of period for new FTs</b>	<b>36</b>	<b>243</b>	<b>186</b>	<b>12</b>	-	<b>25</b>	-	<b>466</b>
Surplus/(deficit) for the year		-	-	-	-	(1,505)	36	<b>(1,469)</b>
Transfers by absorption: transfers between reserves	34	52	64	-	-	(116)	-	-
Adjustments to prior period accounted for in-year *		-	-	-	-	(21)	(3)	<b>(24)</b>
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(7)	-	-	8	-	<b>1</b>
Other transfers between reserves		-	(19)	-	-	19	-	-
Impairments	8	-	(776)	-	-	-	-	<b>(776)</b>
Revaluations	8	-	778	-	-	-	-	<b>778</b>
Transfer to retained earnings on disposal of assets		-	(51)	-	-	51	-	-
Fair value gains on available-for-sale financial investments		-	-	-	-	-	(4)	<b>(4)</b>
Other recognised gains and losses		-	(1)	-	-	(1)	-	<b>(2)</b>
Remeasurements of the defined net benefit pension scheme liability/asset	28.1	-	-	3	-	4	-	<b>7</b>
Public dividend capital received		166	-	-	-	-	-	<b>166</b>
Public dividend capital repaid		(101)	-	-	-	-	-	<b>(101)</b>
Other reserve movements		(2)	-	1	-	30	(27)	<b>2</b>
<b>Taxpayers' and others' equity at 31 March 2016</b>		<b>14,710</b>	<b>5,807</b>	<b>95</b>	<b>2</b>	<b>(511)</b>	<b>367</b>	<b>20,470</b>

\* Adjustments here in the consolidated FT financial statements to the income and expenditure reserve reflect adjustments made by local NHS foundation trusts to their prior year income and expenditure. They are not material to the consolidated FT financial statements, so the prior year has not been restated in these accounts. The largest element of this is an adjustment of £16.5 million in Doncaster & Bassetlaw Hospitals NHS foundation trust where the trust has corrected misreporting in the prior year.

## Statement of Changes in Equity for the year ended 31 March 2015

		Public	Revaluation	Other	Merger	Income and	NHS	Total
	Note	dividend	reserve	reserves	reserve	expenditure	charitable	
		capital				reserve	fund	
		£m	£m	£m	£m	£m	reserves	£m
<b>Taxpayers' and others' equity at 1 April 2014</b>		<b>13,499</b>	<b>4,738</b>	<b>80</b>	<b>2</b>	<b>1,291</b>	<b>339</b>	<b>19,949</b>
<b>At start of period for new FTs</b>	<b>36</b>	<b>520</b>	<b>309</b>	<b>1</b>	<b>-</b>	<b>84</b>	<b>8</b>	<b>922</b>
Surplus/(deficit) for the year		-	-	-	-	(549)	42	(507)
Transfers by absorption: transfers between reserves	34	37	66	-	-	(103)	-	-
Previous prior period adjustments accounted for in 2014/15		-	4	-	-	(10)	-	(6)
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(11)	-	-	11	-	-
Other transfers between reserves		-	(59)	-	-	59	-	-
Impairments	8	-	(276)	-	-	-	-	(276)
Revaluations	8	-	898	-	-	-	-	898
Transfer to retained earnings on disposal of assets		-	(27)	-	-	27	-	-
Fair value gains on available-for-sale financial investments		-	-	-	-	-	5	5
Other recognised gains and losses		-	(1)	-	-	(1)	-	(2)
Remeasurements of the defined net benefit pension scheme liability/asset	28.1	-	-	(2)	-	(4)	-	(6)
Public dividend capital received		657	-	-	-	-	-	657
Public dividend capital repaid		(208)	-	-	-	-	-	(208)
Public dividend capital written off		(153)	-	-	-	153	-	-
Other reserve movements		-	(8)	-	-	37	(29)	-
<b>Taxpayers' and others' equity at 31 March 2015</b>		<b>14,352</b>	<b>5,633</b>	<b>79</b>	<b>2</b>	<b>995</b>	<b>365</b>	<b>21,426</b>

## **Information on reserves**

### **Public dividend capital**

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of a predecessor NHS trust. Additional PDC may also be issued to NHS foundation trusts by the Department of Health. A charge, reflecting the cost of capital utilised by an NHS foundation trust, is payable to the Department of Health as the PDC dividend.

### **Revaluation reserve**

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are recognised in operating income. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

### **Other reserves**

This reserve reflects balances formed on the creation of predecessor NHS bodies. Other reserves also include non-controlling interests. Non-controlling interests represent the equity in a subsidiary of an NHS foundation trust which is not attributable, directly or indirectly, to the NHS foundation trust.

### **Merger reserve**

This reserve reflects balances formed on merger of NHS bodies.

### **Income and expenditure reserve**

The balance of this reserve represents the accumulated surpluses and deficits of NHS foundation trusts.

### **NHS charitable funds reserves**

This balance represents the ring-fenced funds held by the NHS charitable funds consolidated within these financial statements. These reserves are classified as restricted or unrestricted and a breakdown is provided in note 32.

## Statement of Cash Flows

		2015/16	2014/15
	Note	£m	restated * £m
<b>Cash flows from operating activities</b>			
<b>Operating surplus/ (deficit)</b>		(616)	305
<b>Non-cash income and expense:</b>			
Depreciation and amortisation	5.1	1,311	1,239
Impairments and reversals of impairments	8	497	245
Gain on disposal of assets		(52)	(39)
Non-cash donations/grants credited to income		(116)	(100)
Increase in receivables and other assets		(83)	(161)
Increase in inventories		(23)	(41)
Increase in payables and other liabilities		225	212
Decrease in provisions		(31)	(93)
NHS charitable funds net adjustments to operating cash flows		2	-
Other movements in operating cash flows		(25)	6
<b>Net cash generated from operating activities</b>		<b>1,089</b>	<b>1,573</b>
<b>Cash flows from investing activities</b>			
Interest received		15	15
Purchase and sale of financial assets		(11)	4
Purchase of intangible assets		(164)	(153)
Purchase of property, plant, equipment and investment property		(1,827)	(1,964)
Sales of property, plant, equipment and investment property		195	101
Receipt of cash donations to purchase capital assets		105	71
PFI lifecycle prepayments		(10)	(14)
Cash from acquisitions and disposals of business units and subsidiaries		1	(1)
NHS charitable funds investing cash flows		10	12
<b>Net cash generated used in investing activities</b>		<b>(1,686)</b>	<b>(1,929)</b>
<b>Cash flows from financing activities</b>			
Public dividend capital received		166	657
Public dividend capital repaid		(101)	(208)
Movement on loans from the Department of Health		1,041	625
Movement on other loans		9	20
Capital element of finance lease rental payments		(43)	(36)
Capital element of PFI, LIFT and other service concession payments		(185)	(156)
Interest paid on finance lease liabilities		(11)	(10)
Interest paid on PFI, LIFT and other service concession obligations		(363)	(347)
Other capital receipts		-	9
Other interest paid		(81)	(61)
PDC dividend paid		(544)	(511)
Financing cash flows of discontinued operations		2	-
NHS charitable funds financing cash flows		2	-
Cash flows used in other financing activities		(14)	(10)
<b>Net cash generated from/(used in) financing activities</b>		<b>(122)</b>	<b>(28)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(719)</b>	<b>(384)</b>
<b>Cash and cash equivalents at 1 April</b>		<b>4,075</b>	<b>4,309</b>
<b>Cash and cash equivalents at start of period for new FTs</b>		<b>98</b>	<b>114</b>
Cash and cash equivalents transferred under absorption accounting	34	7	36
<b>Cash and cash equivalents at 31 March</b>	20.1	<b>3,461</b>	<b>4,075</b>

Total cash and cash equivalents is reconciled to the Statement of Financial Position in note 20.1

\* The cash flow has been partially restated to reflect a new row 'Receipt of cash donations to purchase capital assets' and also move the cash flow previously classified as 'Loans from the Independent Trust Financing Facility (ITFF)', which is now included within 'Loans from the Department of Health.'

## Notes to the financial statements

### Note 1 Accounting policies and other information

#### Basis of preparation

Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 requires Monitor to prepare a consolidated set of financial statements for NHS foundation trusts. From 1 April 2016, NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety, the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams. NHS Improvement has produced the consolidated accounts of NHS foundation trusts in accordance with directions issued by the Secretary of State.

The accounting policies contained within the FT ARM are broadly consistent with those specified in HM Treasury's Financial Reporting Manual (FReM), which itself follows International Financial Reporting Standards (IFRS), to the extent that it is meaningful and appropriate in the public sector context. The FT ARM's divergences from the FReM are designed to ensure an appropriate financial reporting framework for the NHS foundation trust sector and have been approved by HM Treasury's Financial Reporting Advisory Board. The FT ARM's divergences from the FReM are listed within the manual.

Where NHS foundation trusts have discretion over their accounting policies we have confirmed that any inconsistencies are not material to these accounts or adjustments have been made.

#### Accounting convention

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and certain financial assets and financial liabilities.

### Note 1.1 Consolidation

#### Basis of consolidation

These accounts consolidate the accounts of all NHS foundation trusts that have been in existence during 2015/16 using the principles of IFRS as adopted by the FReM. It presents the consolidated results of the NHS foundation trust sector after the elimination of inter-NHS foundation trust balances and transactions. Monitor is not the parent undertaking for NHS foundation trusts and its results are not incorporated within these accounts. The accounts for Monitor are laid before Parliament separately. As there is no parent entity within this consolidation, only consolidated group statements are presented.

Monitor is required under the Health and Social Care Act 2012 to consolidate only the accounts of NHS foundation trusts. Accordingly, transactions since the date of authorisation as an NHS foundation trust are consolidated into these accounts and transactions and balances relating to the predecessor NHS trust are not included as comparative data.

Where an NHS foundation trust combines with, transfers a function to, or receives a function from another entity within the Whole of Government Accounts boundary (including other NHS foundation trusts and NHS trusts) this represents a 'machinery of government change' regardless of the mechanism used to effect the combination.

#### Machinery of government changes in 2015/16 and 2014/15

Where functions are transferred to NHS foundation trusts from other NHS or local government bodies (or vice versa), the transaction is accounted for as a transfer by absorption. The assets and liabilities transferred are recognised in the accounts as at the date of transfer and prior year comparatives are not restated. The assets and liabilities are not adjusted to fair value prior to recognition. The net gain/loss corresponding to the net assets/liabilities transferred is recognised within non-operating income/expenditure.

In absorption transfers for property, plant and equipment assets and intangible assets, the cost and accumulated depreciation and amortisation balances from the transferring entity's accounts are preserved on recognition in the NHS foundation trust accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the NHS foundation trust makes a transfer from its income and expenditure reserve to its revaluation reserve. Where the Department of Health transfers Public Dividend Capital from the divesting body to the receiving foundation trust as part of an absorption transaction, this is treated as a transfer from the income and expenditure reserve to the PDC reserve by the foundation trust. This ensures that the absorption gain/loss is calculated in line with the requirements of the FReM and also that the balance of PDC is preserved where this is transferred by the Department of Health.

Where functions are transferred to another NHS or local government body, the assets and liabilities transferred are derecognised from the accounts as at the date of transfer and prior year comparatives are not restated. The net loss / gain corresponding to the net assets / liabilities transferred is recognised within non-operating income/expenditure. Any revaluation reserve balances attributable to assets de-recognised are transferred to the income and expenditure reserve.

More details of transfers in 2014/15 and 2015/16 are provided in note 34.

#### Other business combinations

Where NHS foundation trusts acquire businesses from outside of the Whole of Government Accounts boundary, these are accounted for in accordance with IFRS 3.

#### **Subsidiaries**

Under IFRS 10, an NHS foundation trust controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power over the investee occurs where the foundation trust has existing rights that give it the current ability to direct the relevant activities. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated, in full, into the appropriate financial statement lines. The capital and reserves attributable to non-controlling interests are included as a separate item in the Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year, except where a subsidiary's financial year end is before 1 January or after 1 July. In these cases the actual amounts for each month of the year to 31 March are obtained from the subsidiary and consolidated.

Where a subsidiary's accounting policies are not aligned with those of the NHS foundation trust (including where they report under UK GAAP) amounts are adjusted during local consolidation where the differences are material. Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation. Subsidiaries classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

#### *NHS charitable funds*

NHS foundation trusts are the corporate trustees to various NHS charitable funds. The NHS foundation trusts have individually assessed their relationships to the respective charitable funds and determined whether they meet the definition of subsidiaries under IFRS 10. Some NHS foundation trusts consolidate their NHS linked charity as a result.

The charitable fund's statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK Generally Accepted Accounting Principles (UK GAAP). On consolidation, necessary adjustments are made to the charity's assets, liabilities and transactions to:

- recognise and measure them in accordance with the NHS foundation trust's accounting policies; and
- eliminate intra-group transactions, balances, gains and losses.

## **Associates**

Associate entities are those over which an NHS foundation trust has the power to exercise a significant influence. Associate entities are recognised in these financial statements using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the NHS foundation trust's share of the entity's profit or loss or other gains and losses (e.g. revaluation gains on the entity's property, plant and equipment) following acquisition. It is also reduced when any distribution e.g. share dividends are received by the NHS foundation trust from the associate.

Associates which are classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

## **Joint ventures**

Joint ventures are arrangements in which the NHS foundation trust has joint control with one or more other parties, and where it has the rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method.

## **Joint operations**

Joint operations are arrangements in which the NHS foundation trust has joint control with one or more other parties and has the rights to the assets, and obligations for the liabilities, relating to the arrangement. The NHS foundation trust includes within its financial statements its share of the assets, liabilities, income and expenses.

## **Statement of Comprehensive Income (SOI) policy**

The SOI in these consolidated accounts is presented to separately identify the surplus/deficit before impairments and transfers as this is how NHS Improvement (and formerly Monitor) has reported on the performance of foundation trusts during the year.

## **Note 1.2 Income**

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the NHS foundation trust is contracts with commissioners in respect of health care services. Most contracts run to 31 March, reducing the risk of cut-off issues. At the year end, foundation trusts accrue income relating to activity delivered in that year. Where a patient spell is incomplete at the year end, income relating to the partially completed spell is accrued by the foundation trust, and this usually should be agreed with the commissioner.

Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

Additional contributions from central bodies (such as the Department of Health) designated as revenue contributions are recognised as revenue when received or receivable, and are separately disclosed.

## **Note 1.3 Revenue government and other grants**

Government grants are grants from Government bodies other than income from commissioners or NHS trusts for the provision of services. Grants from the Department of Health are accounted for as government grants, as are grants from the Big Lottery Fund. Where a grant is used to fund revenue expenditure it is credited to operating income to match that expenditure. Where the grant is used to fund capital expenditure, it is credited to the Statement of Comprehensive Income once conditions attached to the grant have been met.

## **Note 1.4 Expenditure on employee benefits**

### **Short-term employee benefits**

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

### **Pension costs**

#### *NHS Pension Scheme*

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Both schemes are unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme: the cost to the NHS body participating in the scheme for the accounting period.

Employers' pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time of committing to the retirement, regardless of the method of payment.

In order that the defined benefit obligations recognised in the financial statements of the NHS Pension Schemes do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal valuations shall be four years, with approximate assessments in intervening years". An outline of these follows:

#### **a) Accounting valuation**

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2016, is based on valuation data as 31 March 2015, updated to 31 March 2016 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

#### **b) Full actuarial (funding) valuation**

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

## c) Scheme provisions

### *Local Government Pension Scheme*

Some NHS foundation trust employees are members of the Local Government Pension Scheme ('LGPS') which is a defined benefit pension scheme, administered locally through regional funds. Where an NHS foundation trust is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). The scheme assets and liabilities attributable to these employees can be identified, are recognised in the accounts of NHS foundation trusts and are consolidated here.

The assets are measured at fair value and the liabilities at the present value of future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The expected gain during the year from scheme assets is recognised within finance income. The net interest cost during the year arising from the unwinding of the discount on the net scheme liabilities is recognised within finance costs.

Remeasurements of the defined benefit plan are recognised as 'other comprehensive income' in the Statement of Comprehensive Income.

Where an NHS foundation trust is unable to identify its share of the underlying scheme liabilities these are accounted for as defined contribution pension schemes ('off Statement of Financial Position') and employer contributions are charged to expenditure as they fall due.

The following schemes are accounted for 'on Statement of Financial Position'. For further details please refer to individual NHS foundation trust financial statements.

	<b>Pension fund</b>	<b>Administering body</b>
Black Country Partnership NHS Foundation Trust	West Midlands Pension Fund	Wolverhampton City Council
Cambridgeshire and Peterborough NHS Foundation Trust	Cambridgeshire County Council Pension Fund	Cambridgeshire County Council
East London NHS Foundation Trust	Bedford Council Pension Fund	Bedford Borough Council
Humber NHS Foundation Trust	East Riding of Yorkshire Council Pension Fund	East Riding of Yorkshire Council
North Essex Partnership NHS Foundation Trust	Essex Pension Fund	Essex County Council
Northamptonshire Healthcare NHS Foundation Trust	Northamptonshire Pension Fund	Northamptonshire County Council
Oxford Health NHS Foundation Trust	Buckinghamshire County Council Pension Fund	Buckinghamshire County Council
Rotherham Doncaster and South Humber NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
Sheffield Health and Social Care NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
South Staffordshire and Shropshire Healthcare NHS Foundation Trust	Staffordshire Pension Fund	Staffordshire County Council

The following schemes are accounted for 'off-Statement of Financial Position'. For further details please refer to individual NHS foundation trust financial statements.

<b>Trust</b>	<b>Pension Fund</b>	<b>Administering body</b>
Camden and Islington NHS Foundation Trust	London Borough of Islington Council Pension Fund	London Borough of Islington Council
Hertfordshire Partnership NHS Foundation Trust	Hertfordshire County Council Pension Fund	Hertfordshire County Council
Northumbria Healthcare NHS Foundation Trust	Northumberland County Council Pension Fund	Northumberland County Council

#### *Other pension schemes*

Some NHS foundation trusts have employees who are members of defined benefit pension schemes other than the NHS Pension Scheme and the Local Government Pension Scheme. Where an NHS foundation trust is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). Otherwise, these are accounted for as defined contribution pension schemes ('off Statement of Financial Position').

There are currently no defined benefit pension arrangements accounted for 'on Statement of Financial Position' by NHS foundation trusts apart from LGPS schemes.

#### *Defined contribution pension schemes*

Some NHS foundation trusts have employees who are members of defined contribution pension schemes. In accounting for these schemes the trust recognises expenditure for its employer contributions as they fall due. The National Employment Savings Trust (NEST) is a common example of such a scheme.

### **Note 1.5 Expenditure on other goods and services**

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as property, plant and equipment.

### **Note 1.6 Discontinued operations**

Discontinued operations occur where activities either cease without transfer to another entity, or transfer to an entity outside of the boundary of Whole of Government Accounts, such as private or voluntary sectors. Such activities are accounted for in accordance with IFRS 5. Activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes' and treated as continuing operations.

## **Note 1.7 Property, plant and equipment**

### ***Recognition***

Property, plant and equipment is capitalised where:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential be provided to, the trust;
- it is expected to be used for more than one financial year; and
- the cost of the item can be measured reliably.

NHS foundation trusts are guided to use a capitalisation threshold of £5,000 but may set their own threshold. Where a large asset, for example a building, includes a number of components with significantly different asset lives, eg plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

### ***Measurement***

#### ***Valuation***

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 16 permits property, plant and equipment to be valued either at cost less accumulated depreciation or at a revalued amount, being fair value at the date of revaluation less subsequent depreciation and impairment. The FT ARM, in accordance with the FReM, does not allow NHS foundation trusts to apply the historical cost model after initial recognition, except for assets which have a short useful economic life or low value or both.

All land and buildings are re-valued at regular intervals, at least once every 5 years is recommended, to ensure the valuations are kept up to date. Valuations are carried out by professional valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the FT ARM. Interim revaluations are also carried out as necessary to ensure that the carrying amount of each asset does not differ materially from its proper valuation at the Statement of Financial Position date.

An item of property, plant and equipment which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 or IFRS 5.

Valuation guidance issued by RICS states that valuations are performed net of VAT where the VAT is recoverable by the entity. This commonly applies to schemes procured under a Private Finance Initiative (PFI), where the construction is completed by a special purpose vehicle and the costs have recoverable VAT for the trust.

#### ***Application of Property Plant and Equipment accounting policy***

Monitor requires NHS foundation trusts to apply modern equivalent asset basis (MEA) for valuation of specialised assets. The MEA method assumes that the existing asset would be replaced with a modern asset of equivalent capacity and function. This asset need not be restricted to the current location and thus, where it would meet the contractual location requirements of the service being provided, an alternative site may instead be used as the basis of valuation.

It is for individual NHS foundation trusts to determine whether the alternative site approach is appropriate when undertaking an MEA based valuation. To indicate the extent to which the alternative site approach has been applied across the sector, a table has been included below:

<b>Net book value</b>	<b>Land £m</b>	<b>Buildings excluding dwellings £m</b>	<b>Dwellings £m</b>	<b>NHS charitable fund property £m</b>
Modern Equivalent Asset (no alternative site)	1,311	10,201	145	5
Modern Equivalent Asset (alternative site)	1,100	8,315	49	-
Other Professional Valuations	607	1,521	46	2
Fair value (surplus PPE land and buildings)	57	50	-	-
<b>Total</b>	<b>3,075</b>	<b>20,087</b>	<b>240</b>	<b>7</b>

#### *Subsequent expenditure*

Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the trust and the cost of the item can be determined reliably. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

#### *Depreciation*

Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

Property, plant and equipment which has been reclassified as 'held for sale' ceases to be depreciated upon the reclassification. Assets in the course of construction and residual interests in off-Statement of Financial Position Private Finance Initiative (PFI) contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

#### *Revaluation gains and losses*

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they directly relate to a revaluation decrease that has previously been recognised in operating expenses, in which case they are recognised in operating income.

Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.

#### *Impairments*

In accordance with the *FReM*, impairments that arise from a clear consumption of economic benefits or of service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment that arises from a clear consumption of economic benefit or of service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating income to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.

Other impairments are treated as revaluation losses. Reversals of 'other impairments' are treated as revaluation gains.

### *De-recognition*

Assets intended for disposal are reclassified as 'held for sale' once the criteria in IFRS 5 are met.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'held for sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

### ***Donated, government grant and other grant funded assets***

Donated and grant funded property, plant and equipment assets are capitalised at their current valuation on receipt. The donation/grant is credited to income at the same time, unless the donor has imposed a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case, the donation/grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

### ***Private finance initiative (PFI) transactions***

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by NHS foundation trusts. In accordance with IAS 17, the underlying assets are initially recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services. The finance cost is calculated using the implicit interest rate for the scheme.

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Statement of Comprehensive Income. Maintenance spend is charged to operating expenses or capitalised as property, plant and equipment depending upon the nature of the expenditure.

Local Improvement Finance Trust (LIFT) schemes also meet the IFRIC 12 definition of a service concession and so are accounted for in the same way.

### ***Useful economic lives of property, plant and equipment***

Useful economic lives assigned to categories of property, plant and equipment vary between NHS foundation trusts according to specific local circumstances. The range of useful economic lives across the sector is:

	<b>Min life</b>	<b>Max life</b>
	<b>Years</b>	<b>Years</b>
Land	1	999
Buildings, excluding dwellings	1	193
Dwellings	1	105
Plant & machinery	1	68
Transport equipment	1	20
Information technology	1	18
Furniture & fittings	1	32

Finance-leased assets (including land) are depreciated over the shorter of the useful economic life or the lease term, unless the NHS foundation trust expects to acquire the asset at the end of the lease term in which case the assets are depreciated in the same manner as owned assets above.

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximum used across the foundation trust sector for each category of asset.

## Note 1.8 Intangible assets

### *Recognition*

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the trust's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the trust and where the cost of the asset can be measured reliably.

### *Internally generated intangible assets*

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

Expenditure on research is not capitalised. Expenditure on development is capitalised when it meets the requirements set out in IAS 38.

### *Software*

Software which is integral to the operation of hardware, eg an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware, eg application software, is capitalised as an intangible asset.

### *Measurement*

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets are measured at current value in existing use. Where no active market exists, intangible assets are valued at the lower of depreciated replacement cost and the value in use where the asset is income generating. Revaluations gains and losses and impairments are treated in the same manner as for property, plant and equipment. An intangible asset which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.

Intangible assets 'held for sale' are measured at the lower of their carrying amount or "fair value less costs to sell".

### *Amortisation*

Intangible assets are amortised over their expected useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

### **Useful economic life of intangible assets**

Useful economic lives assigned to categories of intangible asset vary between NHS foundation trusts according to specific local circumstances. The range of useful economic lives across the sector is:

	<b>Min life Years</b>	<b>Max life Years</b>
<b>Intangible assets - internally generated</b>		
Information technology	1	15
Development expenditure	1	12
Other	1	10
<b>Intangible assets - purchased</b>		
Software	1	20
Licences & trademarks	1	15
Patents	1	5
Other	1	10

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximums used across the foundation trust sector for each category of asset.

## **Note 1.9 Investment properties**

Investment properties are measured at fair value. Changes in fair value are recognised as gains or losses in income/expenditure.

Only those assets which are held solely to generate a commercial return are considered to be investment properties. Where an asset is held, in part, for support service delivery objectives, then it is considered to be an item of property, plant and equipment. Properties occupied by employees, whether or not they pay rent at market rates, are not classified as investment properties.

## **Note 1.10 Inventories**

Inventories are valued at the lower of cost and net realisable value. NHS foundation trusts measure the cost of inventories using either a first in first out (FIFO) method or the weighted average cost method.

## **Note 1.11 Financial instruments and financial liabilities**

### ***Recognition***

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

Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described below.

NHS foundation trusts are permitted to recognise and de-recognise, as applicable, regular way purchases or sales using either the trade or settlement date.

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

### ***De-recognition***

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or an NHS foundation trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

### ***Classification and measurement***

Financial assets are categorised as 'Fair Value through Income and Expenditure', 'Loans and receivables' or 'Available-for-sale financial assets'.

Financial liabilities are classified as 'Fair value through Income and Expenditure' or as 'Other financial liabilities'.

### ***Financial assets and financial liabilities at 'fair value through income and expenditure'***

Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated-out from those contracts and measured in this category.

Assets and liabilities in this category are classified as current assets and current liabilities. These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in Other Comprehensive Income.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets.

NHS foundation trust 'loans and receivables' comprise current investments, cash and cash equivalents, NHS trade and other receivables, Non-NHS trade and other receivables, and accrued income.

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

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income.

### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any of the other categories. They are included in long-term assets unless an NHS foundation trust intends to dispose of them within 12 months of the Statement of Financial Position date.

Available-for-sale financial assets are recognised initially at fair value, including transaction costs, and measured subsequently at fair value, with gains or losses recognised in reserves and reported in the Statement of Comprehensive Income as an item under 'other comprehensive income'. When items classified as 'available-for-sale' are sold or impaired, the accumulated fair value adjustments recognised are transferred from reserves and recognised under 'Finance Costs' in the Statement of Comprehensive Income.

### ***Financial liabilities***

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

They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to finance costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

### ***Determination of fair value***

For financial assets and financial liabilities carried at fair value, the carrying amounts are determined from quoted market prices, independent appraisals or discounted cash flow analysis.

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

At the reporting date, NHS foundation trusts assess whether any financial assets, other than those held at 'fair value through income and expenditure' are impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Comprehensive Income and the carrying amount of the asset is reduced.

### **Note 1.12 Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

### **Note 1.13 Leases**

#### ***Finance leases***

Where substantially all risks and rewards of ownership of a leased asset are borne by an NHS foundation trust, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

The asset and liability are recognised at the inception of the lease and de-recognised when the liability is discharged, cancelled or expires. The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to finance costs in the Statement of Comprehensive Income.

#### ***Operating leases***

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. Operating lease incentives received are added to the lease rentals and charged to operating expenses over the life of the lease.

#### ***Leases of land and buildings***

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

### **Note 1.14 Provisions**

An NHS foundation trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation.

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rates effective for 2015/16.

		Real rate
Short-term	Up to 5 years	-1.55%
Medium-term	After 5 years up to 10 years	-1.00%
Long-term	Exceeding 10 years	-0.80%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 1.37% in real terms.

### ***Clinical negligence costs***

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which an NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with an NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed at note 25.3.

### ***Non-clinical risk pooling***

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

### **Note 1.15 Contingencies**

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 26 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 26, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

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

### **Note 1.16 Public dividend capital**

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. Additional PDC may also be issued to NHS foundation trusts by the Department of Health. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by an NHS foundation trust, is payable as PDC dividend. The charge is calculated at the rate set by the Secretary of State with the consent of HM Treasury (currently 3.5%) on the average relevant net assets of an NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets (including lottery funded assets), (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the 'pre-audit' version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the NHS foundation trusts' annual financial statements, except for correction of any error in the calculation of the dividend itself.

In line with rules set by the Department of Health, the PDC dividend calculation is based upon each trust's group accounts (i.e. including any subsidiaries) but excluding any consolidated charitable funds.

### **Note 1.17 Value added tax**

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

## **Note 1.18 Corporation tax**

The Finance Act 2004 amended S519A Income and Corporation Taxes Act 1998 to provide power to HM Treasury to make certain non-core activities of NHS foundation trusts potentially subject to corporation tax. NHS foundation trusts may also incur corporation tax liabilities through subsidiaries which are consolidated into their financial statements.

Corporation tax expense recognised in these financial statements represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable on the taxable surpluses generated during the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are not discounted.

## **Note 1.19 Foreign exchange**

The functional and presentation currency of NHS foundation trusts is sterling. A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where an NHS foundation trust has assets or liabilities denominated in a foreign currency at the Statement of Financial Position date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the Statement of Financial Position date) are recognised as income or expense in the period in which they arise. Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

## **Note 1.20 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme**

The CRC scheme is a mandatory cap and trade scheme for non-transport CO<sub>2</sub> emissions. Some NHS foundation trusts have emissions above this cap and participate in the scheme. Where NHS foundation trusts are registered with the CRC scheme, they are required to surrender to the Government an allowance for every tonne of CO<sub>2</sub> they emit during the financial year. Therefore, registered NHS foundation trusts should recognise a liability and related expense in respect of this obligation as CO<sub>2</sub> emissions are made.

The carrying amount of the liability at 31 March will, therefore, reflect the CO<sub>2</sub> emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation.

### **Note 1.21 Third party assets**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since an NHS foundation trust has no beneficial interest in them.

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 20.2 to the accounts).

### **Note 1.22 Losses and special payments**

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally would not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled. Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis.

Losses and special payments notes within individual NHS foundation trust financial statements are compiled directly from each trust's losses and compensations register which reports on an accruals basis without provisions for future losses.

### **Note 1.23 Going concern**

HM Treasury's Financial Reporting Manual (FReM) defines that a public sector body that is not classified as a trading entity will be a going concern where there is the anticipated continuation of the provision of services in the future. The same definition is applied by NHS foundation trusts in preparing their financial statements. Monitor has therefore prepared these consolidated financial statements on a going concern basis which reflects the basis on which the underlying NHS foundation trust financial statements have been prepared on the assumption that the Department of Health will provide the necessary cash funding to enable the continuation of services if local NHS funds are insufficient through their regime for funding of NHS providers.

Monitor directs NHS foundation trusts to disclose in their annual report and financial statements where the going concern basis is adopted based on the interpretation in the FReM to focus on the continued provision of services by amending their statement on going concern.

The auditors of 29 NHS foundation trusts have included an emphasis of matter within the trust's audit report to draw attention to the going concern disclosure in those financial statements (2014/15: 21). These are entered by auditors where there are uncertainties over the trust's financial position, usually where they are dependent on future funding from the Department of Health. These 29 NHS foundation trusts comprise 20% of total operating income. 26 trusts received interim support funding from the Department of Health during 2015/16 totalling £704 million. Details of the overall sector position are set out in the management commentary.

The NHS foundation trusts whose auditors included emphasis of matter paragraphs in relation to going concern are:

- Aintree University Hospitals NHS Foundation Trust
- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Blackpool Teaching Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- Calderstones Partnership NHS Foundation Trust
- Cambridge University Hospitals NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Derby Teaching Hospitals NHS Foundation Trust
- Doncaster & Bassetlaw Hospitals NHS Foundation Trust
- Dorset County Hospital NHS Foundation Trust
- Heart of England NHS Foundation Trust

- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust (ceased to provide services on 1 November 2014)
- Milton Keynes Hospital NHS Foundation Trust
- Norfolk and Norwich University Hospitals NHS Foundation Trust
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Poole Hospital NHS Foundation Trust
- Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- St George's University Hospitals NHS Foundation Trust
- Taunton & Somerset NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust

All of these accounts were prepared on a going concern basis and received unqualified audit opinions on the accounts. Monitor has prepared these consolidated accounts on a going concern basis which reflects the basis on which the underlying accounts have been prepared.

#### **Note 1.24 Critical accounting judgements and key sources of estimation uncertainty**

In preparing the consolidation of NHS foundation trust accounts, Monitor applies the following accounting judgement:

- intra-group transactions and balances between foundation trusts are eliminated upon consolidation. Where differences are identified in the amounts recorded, adjustments are made to these amounts to ensure all intra-group balances eliminate. Any difference between these amounts and the amounts recognised as expenditure and payables are not further adjusted as these amounts are not material;

and the following estimations:

- these consolidated accounts are prepared on a going concern basis as detailed within the section above.
- accounting policy note 1.7 sets out how property plant and equipment is valued and measured. In applying the RICS guidance to valuing an asset, the valuation used by the NHS foundation trust will depend on the local assumptions used. For a specialised asset valued on a depreciated replacement cost (DRC) basis as a modern equivalent (MEA), this includes the assumption of whether 'alternative site' or 'no alternative' site is used for the valuation. The accounting policy of DRC:MEA is applied consistently in the foundation trust consolidated accounts, but local valuation assumptions may have material effects on each local valuation.

#### **Note 1.25 Early adoption of standards, amendments and interpretations**

The consolidated NHS Foundation Trust financial statements have not adopted any IFRSs, amendments or interpretations early.

#### **Note 1.26 Standards, amendments and interpretations in issue but not yet effective or adopted**

International Accounting Standard 8, accounting policies, changes in accounting estimates and errors, requires disclosure in respect of new IFRSs, amendments and interpretations that are, or will be, applicable after the accounting period. There are a number of IFRSs, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period.

The following standards have not been adopted in these financial statements:

- IFRS 11 (amendment) - acquisition of an interest in a joint operation: Effective date of 2016/17 but not yet EU adopted
- IAS 16 (amendment) and IAS 38 (amendment) - depreciation and amortisation: Effective date of 2016/17 but not yet EU adopted
- IAS 16 (amendment) and IAS 41 (amendment) - bearer plants: Effective date of 2016/17 but not yet EU adopted
- IAS 27 (amendment) - equity method in separate financial statements: Effective date of 2016/17 but not yet EU adopted
- IFRS 10 (amendment) and IAS 28 (amendment) - sale or contribution of assets: Effective date of 2016/17 but not yet EU adopted
- IFRS 10 (amendment) and IAS 28 (amendment) - investment entities applying the consolidation exception: Effective date of 2016/17 but not yet EU adopted
- IAS 1 (amendment) - disclosure initiative: Effective date of 2016/17 but not yet EU adopted
- IFRS 15 - Revenue from contracts with customers: The effective date is for accounting periods beginning on or after 1 January 2018, but not yet adopted by the HM Treasury FReM
- Annual Improvements to IFRS: 2012-15 cycle: Effective date of 2017/18 but not yet EU adopted
- IFRS 9 - Financial Instruments: The effective date is for accounting periods beginning on or after 1 January 2018 but not yet adopted by the HM Treasury FReM
- IFRS 14 - Regulatory Deferral Accounts: Not yet EU-endorsed
- IFRS 16 - Leases: The effective date is for accounting periods beginning on or after 1 January 2019 but not yet adopted by the HM Treasury FReM

The adoption of IFRS 15 Revenue from contracts and customers may have a future material impact on revenue recognition within the consolidated NHS foundation trust financial statements but this standard has not yet been adopted for the public sector by HM Treasury and may be subject to interpretation and/or adaptation. As such, it is not currently possible to estimate the potential impact.

The remaining new or amended standards and interpretations are not anticipated to have a future material impact.

## Note 2 Operating segments

The NHS foundation trust sector is formed of five types of NHS foundation trust, providing different services: acute, ambulance, community, mental health and specialist. This classification is based on the majority of the trust's income at the time of authorisation as a foundation trust. The first community trusts were authorised in 2014/15. Alternatively NHS foundation trusts can be allocated into four regions: North, Midlands & East, South and London.

These are two alternative segmental analyses. NHS Improvement does not allocate resources between these segments; however this is the basis on which the performance of the foundation trust sector was reported to NHS Improvement's Board. Monitor (as part of NHS Improvement) is not the parent of NHS foundation trusts and as such does not have a function that meets the definition of the chief operating decision maker in IFRS 8.

Net assets are not split between segments in our internal reporting and so are not split by segment here.

The figures reported below include inter-NHS foundation trust income and expenditure and these are removed in reconciling to the Statement of Comprehensive Income below. The figures below exclude amounts relating to NHS charitable funds which are excluded for our regulatory analysis. The impact of consolidating charitable funds is added in to the reconciliation to the Statement of Comprehensive Income below.

### Analysis by type of trust

2015/16 excluding charities	Mental					Total £m
	Community £m	Ambulance £m	Specialist £m	Health £m	Acute £m	
Income (less impairment reversals)	559	960	3,217	9,084	33,690	47,510
Expenditure before depreciation and impairments	(548)	(912)	(2,990)	(8,663)	(33,205)	(46,318)
Depreciation and amortisation	(8)	(42)	(113)	(194)	(954)	(1,311)
Net finance costs	(3)	(8)	(50)	(182)	(739)	(982)
Other	-	-	9	(2)	(3)	4
<b>Surplus/(deficit) before I&amp;T</b>	<b>-</b>	<b>(2)</b>	<b>73</b>	<b>43</b>	<b>(1,211)</b>	<b>(1,097)</b>
Impairments (net of reversals)	-	(1)	(53)	(86)	(357)	(497)
Transfers by absorption	-	-	-	-	117	117
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>-</b>	<b>(3)</b>	<b>20</b>	<b>(43)</b>	<b>(1,451)</b>	<b>(1,477)</b>
<i>Number of trusts at end of the year</i>	3	5	17	43	85	153

2014/15 excluding charities	Mental					Total £m
	Community £m	Ambulance £m	Specialist £m	Health £m	Acute £m	
Income (less impairment reversals)	153	951	3,095	8,381	31,520	44,100
Expenditure before depreciation and impairments	(149)	(902)	(2,886)	(7,990)	(30,371)	(42,298)
Depreciation and amortisation	(2)	(40)	(113)	(176)	(908)	(1,239)
Net finance costs	(1)	(7)	(43)	(166)	(713)	(930)
Other	-	-	3	1	5	9
<b>Surplus/(deficit) before I&amp;T</b>	<b>1</b>	<b>2</b>	<b>56</b>	<b>50</b>	<b>(467)</b>	<b>(358)</b>
Impairments (net of reversals)	-	(3)	(91)	(110)	(41)	(245)
Transfers by absorption	-	6	(7)	-	84	83
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>1</b>	<b>5</b>	<b>(42)</b>	<b>(60)</b>	<b>(424)</b>	<b>(520)</b>
<i>Number of trusts at start of the year</i>	-	5	18	41	83	147
<i>Number of trusts and end of the year <sup>2</sup></i>	3	5	18	42	85	153

The acute sector can be divided as follows:  
(excluding consolidated charities)

2015/16	Large		Medium	Small	Total
	Teaching	Large other			
<b>Surplus/(deficit) before I&amp;T</b>	<b>(361)</b>	<b>(83)</b>	<b>(579)</b>	<b>(188)</b>	<b>(1,211)</b>
<i>Number of trusts at end of the year</i>	20	7	38	20	85
<b>2014/15</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Surplus/(deficit) before I&amp;T</b>	<b>(25)</b>	<b>(5)</b>	<b>(286)</b>	<b>(151)</b>	<b>(467)</b>
<i>Number of trusts at start of the year</i>	19	6	38	20	83
<i>Number of trusts and end of the year <sup>2</sup></i>	20	6	39	20	85

## Analysis by region

2015/16	Midlands &				Total £m
	North £m	East £m	South £m	London £m	
Income (less impairment reversals)	16,776	10,234	10,795	9,705	<b>47,510</b>
Expenditure before depreciation and impairments	(16,379)	(10,135)	(10,444)	(9,360)	<b>(46,318)</b>
Depreciation and amortisation	(419)	(282)	(335)	(275)	<b>(1,311)</b>
Impairments (net of reversals)	(160)	(20)	(103)	(214)	<b>(497)</b>
Net finance costs	(319)	(241)	(198)	(224)	<b>(982)</b>
Gains/(losses) from transfers by absorption	5	(37)	32	116	<b>116</b>
Other	8	(12)	-	8	<b>4</b>
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>(488)</b>	<b>(493)</b>	<b>(253)</b>	<b>(244)</b>	<b>(1,478)</b>
<i>Number of trusts at end of the year</i>	57	40	36	20	153

2014/15	Midlands &				Total £m
	North £m	East £m	South £m	London £m	
Income (less impairment reversals)	16,300	9,563	9,626	8,611	<b>44,100</b>
Expenditure before depreciation and impairments	(15,620)	(9,325)	(9,205)	(8,148)	<b>(42,298)</b>
Depreciation and amortisation	(405)	(271)	(316)	(247)	<b>(1,239)</b>
Impairments (net of reversals)	(6)	(89)	(64)	(86)	<b>(245)</b>
Net finance costs	(314)	(229)	(182)	(205)	<b>(930)</b>
Gains/(losses) from transfers by absorption	-	(110)	6	187	<b>83</b>
Other	5	(1)	-	5	<b>9</b>
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>(40)</b>	<b>(462)</b>	<b>(135)</b>	<b>117</b>	<b>(520)</b>
<i>Number of trusts at start of the year</i>	55	38	35	19	147
<i>Number of trusts at end of the year</i>	56	40	37	20	153

<b>Reconciliation to Statement of Comprehensive Income</b>	<b>2015/16 £m</b>	<b>2014/15 £m</b>
<b>Operating income before impairments and consolidation adjustments</b>	<b>47,510</b>	<b>44,099</b>
Less: Inter FT income adjustment	(855)	(753)
Add: NHS charitable funds consolidation <sup>3</sup>	33	23
<b>Operating income before impairments</b>	<b>46,688</b>	<b>43,369</b>
<b>Operating expenditure before depreciation, impairments and consolidation adjustments</b>	<b>(46,318)</b>	<b>(42,298)</b>
Depreciation and amortisation	(1,311)	(1,239)
Less: Inter FT expenditure adjustment	855	753
Add: NHS charitable funds consolidation <sup>3</sup>	(33)	(35)
<b>Operating expenditure before impairments</b>	<b>(46,807)</b>	<b>(42,819)</b>
<b>Operating surplus before impairments</b>	<b>(119)</b>	<b>550</b>
<b>Surplus/(deficit) for the year before impairments, transfers and consolidation adjustments <sup>4</sup></b>	<b>(1,097)</b>	<b>(358)</b>
Add: NHS charitable funds consolidation <sup>3</sup>	9	13
<b>Surplus / (deficit) for the year before impairments and transfers</b>	<b>(1,088)</b>	<b>(345)</b>

<sup>1</sup> These totals are after impairments and transfers but exclude consolidated charitable funds.

<sup>2</sup> There were 151 foundation trusts in existence at the end of 2014/15 but these numbers are presented to include the two foundation trusts that ceased to exist during 2014/15 but are consolidated for the year.

<sup>3</sup> These numbers reflect the impact of consolidating NHS charitable funds including local intra-group eliminations. These numbers do not represent total income and expenditure in NHS charitable funds.

<sup>4</sup> This number differs from the result in the report *Performance of the NHS provider sector: year ended 31 March 2016*, due to these consolidated accounts using final local audited accounts. The report can be found at [https://improvement.nhs.uk/uploads/documents/BM1653\\_Q4\\_sector\\_performance\\_report.pdf](https://improvement.nhs.uk/uploads/documents/BM1653_Q4_sector_performance_report.pdf). The movement in the FT sector bottom line surplus/(deficit) before impairments and transfers without charities was £1 million.

### Note 3 Operating income from patient care activities

#### Note 3.1 Income from patient care activities (by nature)

	2015/16 £m	2014/15 restated £m
<b>Acute services</b>		
Elective income	5,754	5,609
Non elective income	7,100	6,638
Outpatient income	5,173	4,850
A & E income	1,084	950
Other NHS clinical income	10,880	10,387
<b>Mental health services</b>		
Cost and volume contract income	412	426
Block contract income	5,320	4,958
Clinical partnerships providing mandatory services	200	199
Clinical income for the secondary commissioning of mandatory services	20	19
Other clinical income from mandatory services	159	155
<b>Ambulance services</b>		
A & E income	763	738
Patient transport service income	78	74
Other income	70	89
<b>Community services</b>		
Community services income from CCGs and NHS England	3,364	2,835
Community services income from other commissioners	622	295
<b>All services</b>		
Additional income for delivery of healthcare services*	129	-
Private patient income	448	406
Other clinical income	360	303
<b>Total income from activities</b>	<b>41,936</b>	<b>38,931</b>

\* The Department of Health made additional payments to some NHS foundation trusts in 2015/16 in respect of activity delivered in the year. This enabled trusts to repay part of their Public Dividend Capital or other Department of Health financing.

#### Note 3.2 Income from patient care activities (by source)

Income from patient care activities received from:	2015/16 £m	2014/15 restated £m
CCGs and NHS England	39,416	36,820
Local authorities	1,240	993
Department of Health	8	82
NHS trusts	87	121
NHS other	133	141
Non-NHS: private patients	435	396
Non-NHS: overseas patients (chargeable to patient)	39	25
NHS injury scheme (was RTA)	113	110
Non NHS: other	336	243
Additional income for delivery of healthcare services*	129	-
<b>Total income from activities</b>	<b>41,936</b>	<b>38,931</b>

NHS foundation trusts are required to disclose the level of income from activities arising from Commissioner Requested Services (CRS) and non-Commissioner Requested Services. Additionally, where land and buildings used in the provision of CRS are disposed of during the year, narrative disclosure is required detailing how the trust will continue to meet its obligations to provide CRS. These disclosures can be found in the annual accounts of individual NHS foundation trusts.

**Note 3.3 Overseas visitors (relating to patients charged directly by the NHS foundation trust)**

	2015/16	2014/15
	£m	£m
Income recognised this year	39	25
Cash payments received in-year	16	14
Amounts added to provision for impairment of receivables	14	10
Amounts written off in-year	11	11

**Note 4 Other operating income**

	2015/16	2014/15
	£m	restated*
	£m	£m
Research and development	631	585
Education and training	1,677	1,634
Receipt of capital grants and donations	134	92
Charitable and other contributions to expenditure	53	59
Non-patient care services to other bodies	615	572
Support from the Department of Health for mergers	70	61
Profit on disposal of non-current assets	72	50
Reversal of impairments	266	388
Rental revenue from operating leases	47	51
Income in respect of staff costs where accounted on gross basis	138	119
Incoming resources excluding investment income, relating to NHS charitable funds	65	56
Car Parking	136	123
Pharmacy sales	111	89
Clinical excellence awards	66	77
Catering	75	69
Other income	862	801
<b>Total other operating income</b>	<b>5,018</b>	<b>4,826</b>

\* Prior year numbers have been updated to reflect a new category added to the accounts, 'Support from the Department of Health for mergers'. Other minor amendments have also been made to the prior year numbers reflecting changes in local foundation trust accounts.

## Note 5.1 Operating expenses

	2015/16	2014/15 restated
	£m	£m
Services from NHS trusts	189	178
Services from CCGs and NHS England	23	19
Services from other NHS bodies	61	56
Purchase of healthcare from non NHS bodies	644	475
Purchase of social care	54	29
Employee expenses - executive directors	170	159
Employee expenses - staff	29,878	27,554
Non-executive directors	21	21
Supplies and services - clinical	3,623	3,455
Supplies and services - general	797	757
Establishment	526	499
Research and development	242	208
Transport	320	321
Premises	2,048	1,887
Increase in provision for impairment of receivables	85	93
Increase/(decrease) in other provisions	11	(6)
Change in provisions discount rate(s)	-	6
Inventories written down	6	6
Drug costs	4,167	3,608
Inventories consumed	336	182
Rentals under operating leases	404	355
Depreciation on property, plant and equipment	1,222	1,162
Amortisation on intangible assets	89	77
Impairments	763	633
Fees payable to the external auditor *		
audit services- statutory audit	11	11
other auditor remuneration (external auditor only)	5	7
Clinical negligence	781	568
Loss on disposal of non-current assets	20	11
Legal fees	56	48
Consultancy costs	221	248
Internal audit costs, including local counter fraud services **	17	18
Training, courses and conferences	161	175
Patient travel	30	29
Car parking & security	21	17
Redundancy	57	52
Early retirements	4	4
Hospitality	4	5
Publishing	3	2
Insurance	37	35
Other services, eg external payroll	97	83
Grossing up consortium arrangements	12	11
Losses, ex gratia & special payments	11	12
Other	310	347
NHS charitable funds: Other resources expended	33	35
<b>Total</b>	<b>47,570</b>	<b>43,452</b>

\* These are the audit fees disclosed by NHS foundation trusts and do not include the audit fee payable to the National Audit Office in respect of these consolidated accounts. This fee is accounted for within Monitor's own accounts which are presented separately to Parliament. This fee is £68,000 (2014/15: £68,000).

\*\* Prior year internal audit costs have been reclassified from 'other' to maintain comparability. No other adjustments have been made to prior year numbers in this note, as there are no material amendments. Therefore this note is not fully restated.

## Note 5.2 Other auditor's remuneration

	2015/16 £m	2014/15 £m
Other remuneration paid to the external auditor is made up as follows:		
1. Audit of accounts of any associate of the trust	-	-
2. Audit-related assurance services *	1	1
3. Taxation compliance services	1	1
4. All taxation advisory services not falling within item 3 above	1	-
5. Internal audit services	-	-
6. All assurance services not falling within items 1 to 5	1	1
7. Corporate finance transaction services not falling within items 1 to 6 above	-	-
8. Other non-audit services not falling within items 2 to 7 above	2	3
<b>Total</b>	<b>6</b>	<b>6</b>

\* Audit related assurance services includes fees paid by foundation trusts for external assurance on quality reports.

## Note 5.3 Limitation on auditor's liability

Liability caps are standard under most public sector frameworks. One hundred and two (2014/15: ninety eight) NHS foundation trusts disclosed a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit in 2015/16 ranges between £0.5 million to £5 million (2014/15: £0.5 million to £5 million).

## Note 6.1 Employee benefits

	Permanent £m	Other £m	2015/16 Total £m	2014/15 Total £m
Salaries and wages	22,741	840	23,581	21,869
Social security costs	1,753	30	1,783	1,683
Employer's contributions to NHS pensions	2,733	38	2,771	2,524
Pension cost - other	3	-	3	1
Other employment benefits	-	5	5	1
Termination benefits	42	1	43	41
Agency/contract staff	-	2,135	2,135	1,848
NHS charitable funds staff	4	1	5	4
<b>Total gross staff costs</b>	<b>27,276</b>	<b>3,050</b>	<b>30,326</b>	<b>27,971</b>
Recoveries in respect of seconded staff	(58)	-	(58)	(70)
<b>Total staff costs</b>	<b>27,218</b>	<b>3,050</b>	<b>30,268</b>	<b>27,901</b>
<b>Included within:</b>				
Costs capitalised as part of assets	52	26	78	69

Staff costs here and in note 5.1 differ as note 6.1 also includes redundancy and early retirements costs and the costs of staff involved in research and development.

Individual NHS foundation trusts' accounts and annual reports contain disclosure of senior manager remuneration, the Hutton fair pay ratio and off-payroll engagements as required by the HM Treasury FReM.

## Note 6.2 Average number of employees (WTE basis)

			2015/16	2014/15 restated
	Permanent Number	Other Number	Total Number	Total Number
Medical and dental	60,443	7,956	68,399	65,780
Ambulance staff	11,591	101	11,692	11,061
Administration and estates	142,291	5,101	147,392	141,935
Healthcare assistants and other support staff	97,091	4,172	101,263	95,247
Nursing, midwifery and health visiting staff	222,376	7,709	230,085	224,928
Nursing, midwifery and health visiting learners	2,551	233	2,784	3,073
Scientific, therapeutic and technical staff	86,877	2,330	89,207	87,394
Healthcare science staff	9,868	153	10,021	9,114
Social care staff	983	250	1,233	1,594
Agency and contract staff	-	21,660	21,660	19,417
Bank staff	1,687	17,530	19,217	17,677
Other	2,529	42	2,571	2,809
<b>Total average numbers</b>	<b>638,287</b>	<b>67,237</b>	<b>705,524</b>	<b>680,029</b>
<b>Of which:</b>				
Number of employees (WTE) engaged on capital projects	1,229	573	1,802	1,528

## Note 6.3 Retirements due to ill-health

During 2015/16 there were 677 retirements on the grounds of ill-health (2014/15: 872). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £35 million (2014/15: £52 million).

## Note 6.4 Reporting of compensation schemes - exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Further disclosure of exit packages paid to senior managers can be found in the remuneration reports of individual NHS foundation trusts.

Note 6.5 provides further analysis of the 'other departures' disclosed below.

2015/16	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<b>Exit package cost band (including any special payment element)</b>			
<£10,000	244	1,144	1,388
£10,001 - £25,000	284	318	602
£25,001 - 50,000	281	220	501
£50,001 - £100,000	172	145	317
£100,001 - £150,000	52	33	85
£150,001 - £200,000	18	3	21
>£200,000	-	2	2
<b>Total number of exit packages by type</b>	<b>1,051</b>	<b>1,865</b>	<b>2,916</b>
Total resource cost (£m)	38	33	71

2014/15	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<£10,000	267	667	934
£10,001 - £25,000	326	453	779
£25,001 - 50,000	286	282	568
£50,001 - £100,000	177	115	292
£100,001 - £150,000	69	26	95
£150,001 - £200,000	29	5	34
>£200,000	13	6	19
<b>Total number of exit packages by type</b>	<b>1,167</b>	<b>1,554</b>	<b>2,721</b>
Total resource cost (£m)	47	33	80

#### Note 6.5 Exit packages: other (non-compulsory) departure payments

	2015/16		2014/15	
	Payments agreed Number	Total value of agreements £m	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	248	12	465	12
Mutually agreed resignations (MARS) contractual costs	562	13	559	14
Early retirements in the efficiency of the service contractual costs	2	-	38	1
Contractual payments in lieu of notice	1,020	5	476	4
Exit payments following employment tribunals or court orders	20	2	45	1
Non-contractual payments requiring HM Treasury approval*	27	1	41	1
<b>Total</b>	<b>1,879</b>	<b>33</b>	<b>1,624</b>	<b>33</b>

\* Includes any non-contractual severance payment made following the judicial mediation, and amounts relating to non-contractual payments in lieu of notice.

In 2015/16 non-contractual payments requiring HM Treasury approval include two payments made by University London College Hospitals NHS Foundation Trust in excess of the individuals' salaries totalling £235,000 and one payment made by Cambridgeshire and Peterborough NHS Foundation trust in excess of the individuals' salaries totalling £38,000. In 2014/15, there was one payment made by Cambridgeshire and Peterborough NHS Foundation Trust in excess of the individual's salary for £327,000.

As a single exit package can be made up of several components, each of which will be counted separately in this note, the total number in note 6.5 does not match the total numbers in note 6.4 which is the number of individuals.

Exit packages disclosed in this note differ from the redundancy figure included within note 5.1. The redundancy figure in note 5.1 relates to additional costs which are not exit packages payable directly to the employee.

## Note 6.6 Staff sickness absence

The HM Treasury FReM requires public sector bodies to disclose published staff sickness absence data. This disclosure is based on statistics published by HSCIC for the calendar year from 1 January to 31 December drawn from the Electronic Staff Record (ESR) national data warehouse. Where foundation trusts consolidated within these accounts were authorised during the current or comparative year, full calendar year data has been used. Where foundation trusts do not use ESR, the HSCIC statistics have been supplemented with information from the annual reports of those trusts.

	2015/16 Number	2014/15 Number
Total days lost	6,042,372	5,924,127
Total staff years	642,671	622,514
<b>Average working days lost (per WTE)</b>	<b>9.4</b>	<b>9.5</b>

## Note 7 Pension costs

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

For 2015/16, the contribution rate was 14.3% (2014/15: 14%). It is not possible for the NHS foundation trust sector to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme in these accounts.

Employer pension cost contributions are charged to operating expenses as and when they become due.

As set out in accounting policy 1.4, some NHS foundation trusts also have employees whom are members of other pension schemes. Membership of these individual schemes is not material to the consolidated NHS Foundation Trust accounts.

## Note 8 Impairment of assets

Under public sector accounting requirements, impairments are either charged to operating expenditure or the revaluation reserve. More detail is provided in accounting policy 1.7 and 1.8. Impairments reduce the value of assets. The note below provides detail about the reasons for impairments.

	Impairments £m	Reversals £m	2015/16 Net impairments £m	2014/15 Net impairments £m
<b>Net impairments charged to operating surplus / deficit resulting from:</b>				
Loss or damage from normal operations	19	(2)	17	2
Over specification of assets	8	-	8	1
Abandonment of assets in course of construction	5	-	5	7
Unforeseen obsolescence	12	-	12	16
Changes in market price	590	(245)	345	4
Other	129	(19)	110	215
<b>Total net impairments charged to operating surplus / deficit</b>	<b>763</b>	<b>(266)</b>	<b>497</b>	<b>245</b>
Impairments charged to the revaluation reserve	858	(82)	776	276
<b>Total net impairments</b>	<b>1,621</b>	<b>(348)</b>	<b>1,273</b>	<b>521</b>

In addition there is a net revaluation surplus taken to the revaluation reserve of £778m (2014/15: £898m), as can be seen in the Statement of Changes in Equity.

## Note 9 Operating leases

### Note 9.1 Operating lease income

This note discloses income generated in operating lease agreements where NHS foundation trusts are the lessor.

	2015/16 £m	2014/15 £m
<b>Operating lease revenue</b>		
Minimum lease receipts	40	44
Contingent rent	4	5
Other	3	1
<b>Total</b>	<b>47</b>	<b>50</b>
	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>
<b>Future minimum lease receipts due:</b>		
- not later than one year;	34	29
- later than one year and not later than five years;	81	74
- later than five years.	247	246
<b>Total</b>	<b>362</b>	<b>349</b>

### Note 9.2 Operating lease expense

This note discloses costs and commitments incurred in operating lease arrangements where NHS foundation trusts are lessees.

	2015/16 £m	2014/15 £m
<b>Operating lease expense</b>		
Minimum lease payments	406	356
Contingent rents	-	1
Less sublease payments received	(2)	(2)
<b>Total</b>	<b>404</b>	<b>355</b>
	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>
<b>Future minimum lease payments due:</b>		
On leases of land expiring		
- not later than one year;	4	3
- later than one year and not later than five years;	8	6
- later than five years.	22	19
On leases of buildings expiring		
- not later than one year;	211	200
- later than one year and not later than five years;	415	355
- later than five years.	487	515
On other leases expiring		
- not later than one year;	116	108
- later than one year and not later than five years;	193	172
- later than five years.	27	14
<b>Total</b>	<b>1,483</b>	<b>1,392</b>
Future minimum sublease payments to be received	(1)	(4)

## Note 10 Finance income

Finance income represents interest received on assets and investments in the period.

	2015/16	2014/15
	£m	£m
Interest on bank accounts	13	13
Interest on loans and receivables	2	2
NHS charitable funds investment income	7	8
<b>Total</b>	<b>22</b>	<b>23</b>

## Note 11.1 Finance expenditure

Finance expenditure represents interest and other charges involved in the borrowing of money.

	2015/16	2014/15
	£m	restated £m
Loans from the Department of Health *	75	57
Commercial loans	6	5
Finance leases	11	10
Other	1	-
Main finance costs on PFI and LIFT schemes obligations	263	270
Contingent finance costs on PFI and LIFT scheme obligations	109	87
Other finance costs	1	1
<b>Total finance expenditure - financial liabilities</b>	<b>466</b>	<b>430</b>
Finance expense - unwinding of discount on provisions	3	6
<b>Total finance expenditure</b>	<b>469</b>	<b>436</b>

\* Loans from the Department of Health include those previously classified as loans from the Independent Trust Financing Facility (ITFF).

## Note 11.2 The late payment of commercial debts (interest) Act 1998

In 2015/16 22 NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- Camden and Islington NHS Foundation Trust;
- Chelsea and Westminster NHS Foundation Trust;
- Chesterfield Royal Hospital NHS Foundation Trust;
- Colchester Hospital University NHS Foundation Trust;
- Doncaster and Bassetlaw Hospitals NHS Foundation Trust;
- Dorset Healthcare University NHS Foundation Trust;
- East Kent Hospitals University NHS Foundation Trust;
- Frimley Health NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;
- The Hillingdon Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Luton and Dunstable University Hospital NHS Foundation Trust
- Medway NHS Foundation Trust;
- North Tees and Hartlepool NHS Foundation Trust;
- Oxford University Hospitals NHS Foundation Trust;
- Royal Berkshire NHS Foundation Trust;
- Royal United Hospitals Bath NHS Foundation Trust;
- Southern Health NHS Foundation Trust;
- South Tees Hospitals NHS Foundation Trust;
- South Western Ambulance Service NHS Foundation Trust;
- Tameside Hospital NHS Foundation Trust; and
- Warrington and Halton Hospitals NHS Foundation Trust.

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £444,100.

In 2014/15 15 NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- Chesterfield Royal Hospital NHS Foundation Trust;
- Dorset Healthcare University NHS Foundation Trust;
- Frimley Park Hospital NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;
- The Hillingdon Hospitals NHS Foundation Trust;
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Liverpool Heart and Chest Hospital NHS Foundation Trust;
- Luton and Dunstable University Hospital NHS Foundation Trust
- Medway NHS Foundation Trust;
- The Rotherham NHS Foundation Trust;
- Royal Berkshire NHS Foundation Trust;
- Salford Royal NHS Foundation Trust;
- South Tees Hospitals NHS Foundation Trust; and
- Warrington and Halton Hospitals NHS Foundation Trust.

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £215,000.

## Note 12 Discontinued operations

	2015/16	2014/15
	£m	£m
Operating income of discontinued operations	1	20
Operating expenses of discontinued operations	(3)	(24)
Gain on disposal of discontinued operations	-	-
(Loss) on disposal of discontinued operations	-	-
<b>Total</b>	<b>(2)</b>	<b>(4)</b>

Three NHS foundation trusts have reported discontinued operations in 2015/16 (2014/15: six). There are no gains/losses on disposal recorded in either year. These discontinued operations are not material to the consolidated NHS Foundation Trust accounts. These amounts have therefore not been shown separately on the face of the Statement of Comprehensive Income.

**Note 13.1 Intangible assets - 2015/16**

	Software licences £m	Licences & trademarks £m	Internally generated information technology £m	Development expenditure £m	Other £m	Intangible assets under construction £m	Total £m
<b>Valuation/gross cost at 1 April 2015 - brought forward</b>	<b>550</b>	<b>7</b>	<b>120</b>	<b>29</b>	<b>3</b>	<b>94</b>	<b>803</b>
<b>Valuation/gross cost at start of period for new FTs</b>	<b>6</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24</b>
Transfers by absorption	1	-	1	-	-	-	2
Adjustments to prior period accounted for in-year	-	-	-	-	-	2	2
Additions	66	2	11	8	-	72	159
Impairments	(7)	-	-	-	(1)	(5)	(13)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	50	2	26	14	(1)	(55)	36
Revaluations	-	-	-	-	-	-	-
Transfers to/ from assets held for sale	-	-	-	-	-	-	-
Disposals / derecognition	(16)	-	(1)	(4)	-	(1)	(22)
<b>Gross cost at 31 March 2016</b>	<b>650</b>	<b>11</b>	<b>175</b>	<b>47</b>	<b>1</b>	<b>107</b>	<b>991</b>
<b>Amortisation at 1 April 2015 - brought forward</b>	<b>289</b>	<b>4</b>	<b>65</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>368</b>
<b>Amortisation at start of period for new FTs</b>	<b>3</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>
Transfers by absorption	-	-	1	-	-	-	1
Adjustments to prior period accounted for in-year	-	-	-	-	-	-	-
Provided during the year	65	1	18	5	-	-	89
Impairments	(1)	-	1	-	-	-	-
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	(5)	-	-	3	-	-	(2)
Revaluations	-	-	-	-	-	-	-
Transfers to/ from assets held for sale	-	-	-	-	-	-	-
Disposals / derecognition	(16)	-	(2)	(3)	-	-	(21)
<b>Amortisation at 31 March 2016</b>	<b>335</b>	<b>5</b>	<b>95</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>450</b>
<b>Net book value at 31 March 2016</b>	<b>315</b>	<b>6</b>	<b>80</b>	<b>32</b>	<b>1</b>	<b>107</b>	<b>541</b>
<b>Net book value at 1 April 2015</b>	<b>261</b>	<b>3</b>	<b>55</b>	<b>19</b>	<b>3</b>	<b>94</b>	<b>435</b>

**Note 13.2 Intangible assets - 2014/15**

	Software licences	Licences & trademarks	Internally generated information technology	Development expenditure	Other	Intangible assets under construction	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Gross cost at 1 April 2014</b>	<b>448</b>	<b>5</b>	<b>68</b>	<b>24</b>	<b>3</b>	<b>71</b>	<b>619</b>
<b>Gross cost at start of period for new FTs</b>	<b>7</b>	<b>1</b>	<b>25</b>	-	-	-	<b>33</b>
Transfers by absorption	(12)	-	-	-	-	-	(12)
Previous prior period adjustments accounted for in 2014/15	(5)	-	10	-	-	1	6
Additions	68	1	8	4	-	83	164
Impairments	-	-	-	-	-	-	-
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	61	-	10	6	-	(61)	16
Revaluations	(1)	-	-	-	-	-	(1)
Transfers to/ from assets held for sale	-	-	-	-	-	-	-
Disposals / derecognition	(16)	-	(1)	(5)	-	-	(22)
<b>Valuation/gross cost at 31 March 2015</b>	<b>550</b>	<b>7</b>	<b>120</b>	<b>29</b>	<b>3</b>	<b>94</b>	<b>803</b>
<b>Amortisation at 1 April 2014</b>	<b>255</b>	<b>4</b>	<b>34</b>	<b>10</b>	-	-	<b>303</b>
<b>Amortisation at start of period for new FTs</b>	<b>3</b>	-	<b>8</b>	-	-	-	<b>11</b>
Transfers by absorption	(4)	-	-	-	-	-	(4)
Previous prior period adjustments accounted for in 2014/15	(5)	(1)	5	-	-	-	(1)
Provided during the year	54	1	18	4	-	-	77
Impairments	-	-	-	-	-	1	1
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	1	-	-	-	-	(1)	-
Revaluations	-	-	-	-	-	-	-
Transfers to/ from assets held for sale	-	-	-	-	-	-	-
Disposals / derecognition	(15)	-	-	(4)	-	-	(19)
<b>Amortisation at 31 March 2015</b>	<b>289</b>	<b>4</b>	<b>65</b>	<b>10</b>	-	-	<b>368</b>
<b>Net book value at 31 March 2015</b>	<b>261</b>	<b>3</b>	<b>55</b>	<b>19</b>	<b>3</b>	<b>94</b>	<b>435</b>
<b>Net book value at 1 April 2014</b>	<b>193</b>	<b>1</b>	<b>34</b>	<b>14</b>	<b>3</b>	<b>71</b>	<b>316</b>

**Note 14.1 Property, plant and equipment - 2015/16**

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Valuation/gross cost at 1 April 2015 - brought forward</b>	<b>3,603</b>	<b>20,226</b>	<b>253</b>	<b>931</b>	<b>4,739</b>	<b>233</b>	<b>1,644</b>	<b>354</b>	<b>9</b>	<b>31,992</b>
<b>Valuation/gross cost at start of period as FT</b>	<b>67</b>	<b>594</b>	<b>-</b>	<b>4</b>	<b>179</b>	<b>1</b>	<b>29</b>	<b>4</b>	<b>-</b>	<b>878</b>
Transfers by absorption	42	119	-	1	20	-	13	2	-	197
Adjustments to prior period recorded in-year	-	(58)	-	(7)	-	-	(1)	-	-	(66)
Additions	2	636	2	1,006	286	14	130	16	-	2,092
Impairments	(505)	(883)	(4)	(17)	(2)	-	(3)	-	-	(1,414)
Reversals of impairments	6	168	1	2	-	-	-	-	-	177
Reclassifications	(4)	523	1	(839)	92	21	69	3	-	(134)
Revaluations	(52)	448	9	-	1	-	-	-	-	406
Transfers to/ from assets held for sale	(24)	(23)	-	-	(1)	(1)	-	-	-	(49)
Disposals / derecognition	(10)	(32)	(2)	(3)	(210)	(25)	(97)	(26)	-	(405)
<b>Valuation/gross cost at 31 March 2016</b>	<b>3,125</b>	<b>21,718</b>	<b>260</b>	<b>1,078</b>	<b>5,104</b>	<b>243</b>	<b>1,784</b>	<b>353</b>	<b>9</b>	<b>33,674</b>
<b>Accumulated depreciation at 1 April 2015 - brought forward</b>	<b>41</b>	<b>1,510</b>	<b>19</b>	<b>1</b>	<b>3,150</b>	<b>146</b>	<b>1,069</b>	<b>233</b>	<b>2</b>	<b>6,171</b>
<b>Depreciation at start of period as FT</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>125</b>	<b>1</b>	<b>18</b>	<b>3</b>	<b>-</b>	<b>148</b>
Transfers by absorption	-	1	-	-	11	-	9	2	-	23
Adjustments to prior period recorded in-year	-	(63)	-	-	-	-	(1)	-	-	(64)
Provided during the year	-	631	8	-	356	26	176	25	-	1,222
Impairments	25	167	(1)	-	-	-	2	-	-	193
Reversals of impairments	(2)	(167)	(2)	-	-	-	-	-	-	(171)
Reclassifications	-	(79)	(1)	-	(1)	-	(9)	-	-	(90)
Revaluations	(14)	(355)	(3)	-	-	-	-	-	-	(372)
Transfers to/ from assets held for sale	-	(1)	-	-	(1)	(1)	-	-	-	(3)
Disposals / derecognition	-	(14)	-	-	(204)	(25)	(93)	(26)	-	(362)
<b>Accumulated depreciation at 31 March 2016</b>	<b>50</b>	<b>1,631</b>	<b>20</b>	<b>1</b>	<b>3,436</b>	<b>147</b>	<b>1,171</b>	<b>237</b>	<b>2</b>	<b>6,695</b>
<b>Net book value at 31 March 2016</b>	<b>3,075</b>	<b>20,087</b>	<b>240</b>	<b>1,077</b>	<b>1,668</b>	<b>96</b>	<b>613</b>	<b>116</b>	<b>7</b>	<b>26,979</b>
<b>Net book value at 1 April 2015</b>	<b>3,562</b>	<b>18,716</b>	<b>234</b>	<b>930</b>	<b>1,589</b>	<b>87</b>	<b>575</b>	<b>121</b>	<b>7</b>	<b>25,821</b>

Details of donations received during the year including any restrictions or conditions imposed by the donor are disclosed in the accounts of individual foundation trusts.

Note 14.2 Property, plant and equipment - 2014/15

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Valuation/gross cost at 1 April 2014</b>	<b>3,400</b>	<b>18,940</b>	<b>250</b>	<b>923</b>	<b>4,441</b>	<b>234</b>	<b>1,477</b>	<b>341</b>	<b>9</b>	<b>30,015</b>
<b>Valuation/gross cost at start of period as FT</b>	<b>155</b>	<b>717</b>	<b>5</b>	<b>35</b>	<b>158</b>	<b>2</b>	<b>60</b>	<b>17</b>	<b>-</b>	<b>1,149</b>
Transfers by absorption	58	118	2	(3)	6	-	9	-	-	190
Previous prior period adjustments accounted for in 2014/15	(30)	(18)	(1)	(7)	-	-	(11)	-	-	(67)
Additions	62	510	5	961	291	10	145	16	-	2,000
Impairments	(99)	(557)	(9)	(19)	(7)	-	(5)	(1)	-	(697)
Reversals of impairments	17	294	1	-	-	-	-	-	-	312
Reclassifications	18	701	(2)	(949)	66	8	79	(4)	-	(83)
Revaluations	108	(355)	4	(1)	5	(3)	-	-	-	(242)
Transfers to/ from assets held for sale	(45)	(14)	(1)	-	-	-	-	-	-	(60)
Disposals / derecognition	(41)	(110)	(1)	(9)	(221)	(18)	(110)	(15)	-	(525)
<b>Valuation/gross cost at 31 March 2015</b>	<b>3,603</b>	<b>20,226</b>	<b>253</b>	<b>931</b>	<b>4,739</b>	<b>233</b>	<b>1,644</b>	<b>354</b>	<b>9</b>	<b>31,992</b>
<b>Accumulated depreciation at 1 April 2014</b>	<b>58</b>	<b>2,017</b>	<b>26</b>	<b>5</b>	<b>2,910</b>	<b>141</b>	<b>983</b>	<b>219</b>	<b>2</b>	<b>6,361</b>
<b>Depreciation at start of period as FT</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>110</b>	<b>1</b>	<b>35</b>	<b>11</b>	<b>-</b>	<b>192</b>
Transfers by absorption	-	41	2	-	13	-	8	-	-	64
Previous prior period adjustments accounted for in 2014/15	(34)	(24)	(1)	-	-	-	(6)	-	-	(65)
Provided during the year	-	597	8	-	346	24	162	25	-	1,162
Impairments	31	209	-	2	(4)	-	-	(1)	-	237
Reversals of impairments	(2)	(115)	(1)	-	-	-	-	-	-	(118)
Reclassifications	-	(33)	(4)	(5)	(14)	-	(5)	(6)	-	(67)
Revaluations	(12)	(1,117)	(11)	(1)	3	(3)	-	-	-	(1,141)
Transfers to/ from assets held for sale	-	(1)	-	-	-	-	-	-	-	(1)
Disposals / derecognition	-	(99)	-	-	(214)	(17)	(108)	(15)	-	(453)
<b>Accumulated depreciation at 31 March 2015</b>	<b>41</b>	<b>1,510</b>	<b>19</b>	<b>1</b>	<b>3,150</b>	<b>146</b>	<b>1,069</b>	<b>233</b>	<b>2</b>	<b>6,171</b>
<b>Net book value at 31 March 2015</b>	<b>3,562</b>	<b>18,716</b>	<b>234</b>	<b>930</b>	<b>1,589</b>	<b>87</b>	<b>575</b>	<b>121</b>	<b>7</b>	<b>25,821</b>
<b>Net book value at 1 April 2014</b>	<b>3,342</b>	<b>16,923</b>	<b>224</b>	<b>918</b>	<b>1,531</b>	<b>93</b>	<b>494</b>	<b>122</b>	<b>7</b>	<b>23,654</b>

**Note 14.3 Property, plant and equipment financing - 2015/16**

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Net book value at 31 March 2016</b>										
Owned	2,917	14,498	187	971	1,394	95	603	103	7	<b>20,775</b>
Finance leased	52	100	14	3	66	-	6	1	-	<b>242</b>
On-SoFP PFI contracts and other service concession arrangements	22	4,546	28	13	20	-	-	1	-	<b>4,630</b>
PFI residual interests	-	-	1	-	-	-	-	-	-	<b>1</b>
Government granted	-	46	-	1	3	-	-	-	-	<b>50</b>
Donated	84	897	10	89	185	1	4	11	-	<b>1,281</b>
<b>NBV total at 31 March 2016</b>	<b>3,075</b>	<b>20,087</b>	<b>240</b>	<b>1,077</b>	<b>1,668</b>	<b>96</b>	<b>613</b>	<b>116</b>	<b>7</b>	<b>26,979</b>

**Note 14.4 Property, plant and equipment financing - 2014/15**

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Net book value at 31 March 2015</b>										
Owned	3,376	13,736	189	875	1,322	86	560	107	7	<b>20,258</b>
Finance leased	51	91	20	-	79	1	8	1	-	<b>251</b>
On-SoFP PFI contracts and other service concession arrangements	19	4,094	15	1	16	-	-	1	-	<b>4,146</b>
PFI residual interests	-	2	1	-	-	-	-	-	-	<b>3</b>
Government granted	-	28	-	12	4	-	1	-	-	<b>45</b>
Donated	116	765	9	42	168	-	6	12	-	<b>1,118</b>
<b>NBV total at 31 March 2015</b>	<b>3,562</b>	<b>18,716</b>	<b>234</b>	<b>930</b>	<b>1,589</b>	<b>87</b>	<b>575</b>	<b>121</b>	<b>7</b>	<b>25,821</b>

## Note 15.1 Investments

2015/16	Investment	Investments in	Other
	property	associates (and joint arrangements)	investments
	£m	£m	£m
<b>Carrying value at 1 April 2015</b>	<b>134</b>	<b>29</b>	<b>195</b>
<b>At start of period for new FTs</b>	-	-	-
Adjustments to prior period accounted for in-year	-	-	(1)
Acquisitions in year	1	22	28
Share of profit/(loss)	-	6	-
Movement in fair value	15	1	(8)
Reclassifications to/from PPE	6	-	-
Disposals	(1)	(6)	(31)
<b>Carrying value at 31 March 2016</b>	<b>155</b>	<b>52</b>	<b>183</b>
Held by:			
NHS foundation trusts excluding charitable funds	87	52	2
NHS charitable funds	68	-	181

2014/15	Investment	Investments in	Other
	property	associates (and joint arrangements)	investments
	£m	£m	£m
<b>Carrying value at 1 April 2014</b>	<b>121</b>	<b>17</b>	<b>181</b>
<b>At start of period for new FTs</b>	-	-	<b>6</b>
Acquisitions in year	-	6	22
Share of profit/(loss)	-	5	-
Movement in fair value	13	1	-
Reclassifications to/from PPE	-	-	14
Disposals	-	-	(28)
<b>Carrying value at 31 March 2015</b>	<b>134</b>	<b>29</b>	<b>195</b>
Held by:			
NHS foundation trusts excluding charitable funds	72	29	1
NHS charitable funds	62	-	194

Interests in subsidiaries, joint arrangements and associates are not material to these consolidated accounts. Where material to individual NHS foundation trusts relevant disclosures around the nature of investments and exposures to risk as required by IFRS 12 will be made in individual local accounts, including unconsolidated structured entities.

## Note 16 Inventories

	31 March 2016 £m	31 March 2015 £m
Drugs	195	187
Work in progress	1	1
Consumables	347	320
Energy	7	7
Inventories carried at fair value less costs to sell	5	4
Other	25	21
<b>Total inventories</b>	<b>580</b>	<b>540</b>

Inventories recognised in expenses for the year were £5,289m (2014/15: £4,936m). Write-down of inventories recognised as expenses for the year were £6m (2014/15: £6m)

Inventories recognised in expenses here is higher than 'Inventories consumed' in note 5.1 as NHS foundation trusts may include the costs in other lines within the expenditure note.

## Note 17.1 Trade receivables and other receivables

	31 March 2016 £m	31 March 2015 £m
<b>Current</b>		
Trade receivables due from NHS bodies and NHS charities	1,229	1,223
Other receivables due from related parties	134	135
Capital receivables	33	36
Provision for impaired receivables	(334)	(329)
Deposits and advances	2	2
Prepayments (non-PFI)	373	327
PFI prepayments: capital contributions	9	66
PFI prepayments: lifecycle replacements	43	32
Accrued income	484	439
PDC dividend receivable	25	13
VAT receivable	121	103
Other receivables	712	628
NHS charitable funds trade and other receivables	6	5
<b>Total current trade and other receivables</b>	<b>2,837</b>	<b>2,680</b>
<b>Non-current</b>		
Trade receivables due from NHS bodies and NHS charities	-	-
Other receivables due from related parties	22	20
Capital receivables	10	25
Provision for impaired receivables	(13)	(10)
Prepayments (non-PFI)	14	13
PFI prepayments: capital contributions	8	6
PFI prepayments: lifecycle replacements	119	128
Accrued income	24	9
Interest receivable	-	1
Finance lease receivables	1	1
Other receivables	88	73
<b>Total non-current trade and other receivables</b>	<b>273</b>	<b>266</b>

## Note 17.2 Intra-government receivable balances

	Current 2015/16 £m	Non-current 2015/16 £m	Current 2014/15 £m	Non-current 2014/15 £m
Balances with the Department of Health and other NHS bodies	1,508	-	1,527	-
Balances with other central government bodies	157	3	151	1
Balances with local authorities	136	4	150	5
Balances with public corporations and trading funds	1	-	1	-
<b>Subtotal: intra- government balances</b>	<b>1,802</b>	<b>7</b>	<b>1,829</b>	<b>6</b>
Balances with bodies external to government	1,035	266	851	260
<b>Total receivable at 31 March</b>	<b>2,837</b>	<b>273</b>	<b>2,680</b>	<b>266</b>

## Note 17.3 Provision for impairment of receivables

	2015/16 £m	2014/15 £m
<b>At 1 April as previously stated</b>	<b>339</b>	<b>262</b>
<b>At start of period for new FTs</b>	<b>8</b>	<b>7</b>
Transfers by absorption	-	6
Adjustments to prior period accounted for in-year	1	1
Increase in provision	161	139
Amounts utilised	(86)	(30)
Unused amounts reversed	(76)	(46)
<b>At 31 March</b>	<b>347</b>	<b>339</b>

## Note 17.4 Analysis of impaired receivables

	31 March 2016		31 March 2015	
	Trade receivables £m	Other receivables £m	Trade receivables £m	Other receivables £m
<b>Ageing of impaired receivables</b>				
0 - 30 days	47	2	71	7
30-60 Days	12	1	11	2
60-90 days	16	2	15	2
90- 180 days	50	18	42	8
Over 180 days	172	70	146	62
<b>Total</b>	<b>297</b>	<b>93</b>	<b>285</b>	<b>81</b>

### Ageing of non-impaired receivables past their due date

	31 March 2016	31 March 2015
0 - 30 days	522	492
30-60 Days	162	155
60-90 days	102	131
90- 180 days	170	131
Over 180 days	161	118
<b>Total</b>	<b>1,117</b>	<b>1,027</b>

**Note 18 Other financial assets**

	31 March 2016	31 March 2015
	£m	£m
<b>Current</b>		
Loan and receivables	4	1
Deposits with the National Loans Fund	5	10
Other financial assets held by NHS charitable funds	2	2
<b>Total</b>	<u>11</u>	<u>13</u>
<b>Non-current</b>		
Held to maturity investments	1	-
Loan and receivables	2	5
<b>Total</b>	<u>3</u>	<u>5</u>

**Note 19 Non-current assets for sale and assets in disposal groups**

	2015/16	2014/15
	Total £m	Total £m
<b>NBV of non-current assets for sale and assets in disposal groups at 1 April</b>	<b>105</b>	<b>112</b>
<b>At start of period for new FTs</b>	<b>7</b>	<b>-</b>
Adjustments to prior period accounted for in-year	(3)	-
Plus assets classified as available for sale in the year	47	69
Less assets sold in year	(78)	(50)
Less impairment of assets held for sale	(1)	(16)
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(1)	(10)
<b>NBV of non-current assets for sale and assets in disposal groups at 31 March</b>	<u><b>76</b></u>	<u><b>105</b></u>

There were no liabilities in disposal groups as at 31 March 2016 (31 March 2015: nil).

## Note 20.1 Cash and cash equivalents movements

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

	2015/16	2014/15
	£m	£m
<b>At 1 April</b>	<b>4,085</b>	<b>4,314</b>
<b>At start of period for new FTs</b>	<b>98</b>	<b>114</b>
Transfers by absorption	7	36
Adjustments to prior period accounted for in-year	(1)	17
Net change in year	(727)	(396)
<b>At 31 March</b>	<b>3,462</b>	<b>4,085</b>
<b>Broken down into:</b>		
Cash at commercial banks and in hand	127	102
Cash with the Government Banking Service	2,646	3,244
Deposits with the National Loans Fund	568	633
Other current investments	3	-
NHS charitable funds cash and cash equivalents	118	106
<b>Total cash and cash equivalents as in SoFP</b>	<b>3,462</b>	<b>4,085</b>
Bank overdrafts (GBS and commercial banks)	(1)	-
Drawdown in committed facility	-	(10)
<b>Total cash and cash equivalents as in SoCF</b>	<b>3,461</b>	<b>4,075</b>

## Note 20.2 Third party assets

The balance of third party assets, including patients' money held within the NHS foundation trusts' bank accounts at 31 March 2016 was £28 million (31 March 2015: £29 million). This has been excluded from the Statement of Financial Position as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

## Note 21.1 Trade and other payables

	31 March 2016 £m	31 March 2015 £m
<b>Current</b>		
Receipts in advance	77	81
NHS trade payables	336	306
Amounts due to other related parties	234	226
Other trade payables	1,123	925
Capital payables	315	297
Social security costs	285	264
VAT payable	11	8
Other taxes payable	289	272
Other payables	490	481
Accruals	1,968	1,773
PDC dividend payable	7	11
NHS charitable funds trade and other payables	7	4
<b>Total current trade and other payables</b>	<b>5,142</b>	<b>4,648</b>
<b>Non-current</b>		
Receipts in advance	2	1
NHS trade payables	1	1
Amounts due to other related parties	2	3
Other trade payables	2	2
Capital payables	2	3
VAT payable	2	2
Other payables	6	11
Accruals	1	2
<b>Total non-current trade and other payables</b>	<b>18</b>	<b>25</b>

## Note 21.2 Intra-government payable balances

	31 March 2016		31 March 2015	
	Current £m	Non- current £m	Current £m	Non- current £m
Balances with the Department of Health and other NHS bodies	431	1	406	2
Balances with other central government bodies	902	2	840	2
Balances with local authorities	46	-	47	-
Balances with public corporations and trading funds	38	-	47	-
<b>Subtotal: intra-government balances</b>	<b>1,417</b>	<b>3</b>	<b>1,340</b>	<b>4</b>
Balances with bodies external to government	3,725	15	3,308	21
<b>Total payables at 31 March</b>	<b>5,142</b>	<b>18</b>	<b>4,648</b>	<b>25</b>

### Note 21.3 Early retirements in NHS payables

Payables in note 21.1 include £1m to buy out the liability for early retirements over a period of 5 years (31 March 2015: £2m). These payables relate to 167 cases (31 March 2015: 176). As at 31 March 2016 payables also included £48m of outstanding pension contributions (31 March 2015: £46m).

### Note 22 Other liabilities

	31 March 2016 £m	31 March 2015 £m
<b>Current</b>		
Deferred grants income	23	36
Other deferred income	514	493
Deferred PFI credits	1	1
Lease incentives	1	1
NHS charitable funds other liabilities	-	1
<b>Total other current liabilities</b>	<b>539</b>	<b>532</b>
<b>Non-current</b>		
Deferred grants income	3	8
Other deferred income	99	141
Deferred PFI credits	20	17
Lease incentives	10	10
Net pension scheme liability	10	16
<b>Total other non-current liabilities</b>	<b>142</b>	<b>192</b>

### Note 23 Borrowings

	31 March 2016 £m	31 March 2015 £m
<b>Current</b>		
Bank overdrafts	1	-
Drawdown in committed facility	-	10
Loans from the Department of Health *	180	167
Other loans	11	7
Obligations under finance leases	24	27
Obligations under PFI, LIFT or other service concession contracts (excl. lifecycle)	121	111
<b>Total current borrowings</b>	<b>337</b>	<b>322</b>
<b>Non-current</b>		
Loans from the Department of Health *	3,131	2,099
Other loans	148	142
Obligations under finance leases	121	118
Obligations under PFI, LIFT or other service concession contracts	4,525	4,205
<b>Total non-current borrowings</b>	<b>7,925</b>	<b>6,564</b>

\* Loans from the Department of Health include those previously classified as loans from the Independent Trust Financing Facility (ITFF).

## Note 24 Finance lease obligations

Obligations under finance leases where NHS foundation trusts are the lessees:

	<u>£m</u>	<u>£m</u>
<b>Gross lease liabilities</b>	<b>225</b>	<b>227</b>
Of which liabilities are due:		
- not later than one year;	34	36
- later than one year and not later than five years;	96	89
- later than five years.	95	102
Finance charges allocated to future periods	(80)	(82)
<b>Net lease liabilities</b>	<b>145</b>	<b>145</b>
Of which payable:		
- not later than one year;	24	27
- later than one year and not later than five years;	68	62
- later than five years.	53	56
<b>Total of future minimum sublease payments to be received at the reporting date</b>	<b>1</b>	<b>-</b>

## Note 25.1 Provisions for liabilities and charges

	31 March 2016		31 March 2015	
	Current £m	Non- current £m	Current £m	Non- current £m
Pensions	15	165	16	170
Other legal claims	40	20	37	20
Agenda for Change	8	3	9	3
Restructurings	16	3	17	2
Continuing care	2	5	4	3
Equal pay	2	2	3	5
Redundancy	40	2	38	2
Other	145	111	153	116
<b>Total</b>	<b>268</b>	<b>311</b>	<b>277</b>	<b>321</b>

## Note 25.2 Provisions for liabilities and charges analysis

	Pensions £m	Other legal claims £m	Agenda for change £m	Re- structuring £m	Continuing care £m	Equal pay £m	Redundancy £m	Other £m	Total £m
<b>At 1 April 2015</b>	<b>186</b>	<b>57</b>	<b>12</b>	<b>19</b>	<b>7</b>	<b>8</b>	<b>40</b>	<b>269</b>	<b>598</b>
<b>At start of period for new FTs</b>	<b>3</b>	-	-	-	-	-	1	3	7
Transfers by absorption	-	-	-	-	-	-	-	1	1
Adjustments to prior period accounted for in-year	1	-	-	2	-	-	-	(3)	-
Arising during the year	9	27	1	16	2	1	38	113	207
Utilised during the year	(16)	(10)	-	(10)	-	(1)	(18)	(51)	(106)
Reclassified to liabilities held in disposal groups	1	-	-	-	-	-	-	-	1
Reversed unused	(6)	(14)	(2)	(8)	(2)	(4)	(19)	(77)	(132)
Unwinding of discount	2	-	-	-	-	-	-	1	3
<b>At 31 March 2016</b>	<b>180</b>	<b>60</b>	<b>11</b>	<b>19</b>	<b>7</b>	<b>4</b>	<b>42</b>	<b>256</b>	<b>579</b>
<b>Expected timing of cash flows:</b>									
- not later than one year;	15	40	8	16	2	2	40	145	268
- later than one year and not later than five years;	58	7	3	2	5	2	2	51	130
- later than five years.	107	13	-	1	-	-	-	60	181
<b>Total</b>	<b>180</b>	<b>60</b>	<b>11</b>	<b>19</b>	<b>7</b>	<b>4</b>	<b>42</b>	<b>256</b>	<b>579</b>

- Pension provisions relate to staff whom have retired early from the NHS Pensions Scheme and are calculated in accordance with Department of Health guidance.
- Other legal claims include personal legal claims that have been lodged against NHS foundation trusts with the NHS Litigation Authority (NHSLA) but not yet agreed and therefore not included in provisions held by the NHSLA.
- Agenda for Change and equal pay provisions include provisions for unresolved claims relating to employment contracts.
- Continuing care provisions relate to contractual issues between commissioners and NHS foundation trusts for the provision of continuing healthcare to patients outside of hospital.
- Equal pay claims relate to provisions for claims relating to employment contracts.
- Redundancy and restructuring provisions are included by trusts who are undergoing change in their organisational structures.
- Included within other provisions are charges arising from the provision of services, the cost of PFI terminations, dilapidations associated with leases and other contract challenges.

### **Note 25.3 Clinical negligence liabilities**

The NHS Litigation Authority manages clinical and some non-clinical claims on behalf of the majority of NHS foundation trusts. For this to occur, foundation trusts pay an annual premium to the NHS Litigation Authority, who then settles claims on foundation trusts' behalf. As such, most liabilities for clinical negligence are not included in foundation trust statements of financial position. Instead they separately disclose the amounts relating to clinical negligence cases for their trust which are included in the provisions of the NHS Litigation Authority.

The consolidated total of this amount for NHS foundation trusts at 31 March 2016 is £11,712m (31 March 2015: £6,070m).

This increase in the value liabilities held by the NHS Litigation Authority has been driven by changes to the discount rates to be used in valuing liabilities issued by HM Treasury in December 2015. There was a slight increase in the short term and medium term real discount rates, but a significant decrease in the long term real discount rate. Claims in clinical negligence schemes can be expected to continue past ten years (falling with the 'long term' discount rate) which means the present value of these future liabilities is increased in accounting terms.

## Note 26 Contingent assets and liabilities

Contingent assets and liabilities are potential assets and liabilities arising from past events, whose existence will only be confirmed by the occurrence of future events that are not entirely in the entity's control.

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£m</b>	<b>£m</b>
<b>Value of contingent liabilities</b>		
NHS Litigation Authority legal claims	(6)	(6)
Employment tribunal and other employee related litigation	-	(2)
Redundancy	(2)	-
Other	(39)	(8)
<b>Gross value of contingent liabilities</b>	<b>(47)</b>	<b>(16)</b>
Amounts recoverable against liabilities	1	2
<b>Net value of contingent liabilities</b>	<b>(46)</b>	<b>(14)</b>
<b>Net value of contingent assets</b>	<b>23</b>	<b>2</b>

## Note 27 Contractual capital commitments

At 31 March, contracted capital commitments not otherwise included in these financial statements were:

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment	936	729
Intangible assets	47	36
<b>Total</b>	<b>983</b>	<b>765</b>

## Note 28.1 Changes in the defined benefit obligation and fair value of plan assets during the year

The NHS pension scheme is a defined benefit scheme, but assets and liabilities are not split between the individual NHS bodies. As such each NHS foundation trust accounts for the scheme in the same manner as a defined contribution scheme and does not recognise the assets and liabilities in their accounts and the amounts are not recognised in these consolidated accounts.

As set out in accounting policy 1.4, some foundation trusts are also members of local defined benefit schemes. A consolidation of these amounts is disclosed in the note below.

	2015/16	2014/15
	£m	£m
<b>Present value of the defined benefit obligation at 1 April</b>	<b>(80)</b>	<b>(64)</b>
<b>Present value of the defined benefit obligation at start of period for new FTs</b>	<b>-</b>	<b>-</b>
Current service cost	(2)	(2)
Interest cost	(2)	(3)
Contribution by plan participants	(1)	(1)
Remeasurement of the net defined benefit (liability) / asset:		
- Actuarial (gains)/losses	3	(11)
Benefits paid	1	1
Business combinations	(2)	-
<b>Present value of the defined benefit obligation at 31 March</b>	<b>(83)</b>	<b>(80)</b>
<b>Plan assets at fair value at 1 April</b>	<b>64</b>	<b>53</b>
<b>Plan assets at fair value at start of period for new FTs</b>	<b>-</b>	<b>-</b>
Interest income	2	3
Remeasurement of the net defined benefit (liability) / asset		
- Return on plan assets	5	1
- Actuarial gains/(losses)	(1)	4
- Changes in the effect of limiting a net defined benefit asset to the asset ceiling	-	-
Contributions by the employer	3	3
Contributions by the plan participants	-	1
Benefits paid	(1)	(1)
Business combinations	2	-
<b>Plan assets at fair value at 31 March</b>	<b>74</b>	<b>64</b>
<b>Plan deficit at 31 March</b>	<b>(9)</b>	<b>(16)</b>

## Note 28.2 Amounts recognised in the SoCI

	2015/16	2014/15
	£m	£m
Current service cost	(2)	(2)
Interest (expense) / income	-	-
Past service cost	-	-
Losses on curtailment and settlement	-	-
<b>Total net charge recognised in SOCI</b>	<b>(2)</b>	<b>(2)</b>

## Note 29 On-SoFP PFI, LIFT or other service concession arrangements

### Note 29.1 Imputed finance lease obligations

NHS foundation trusts have the following obligations in respect of the finance lease element of on-Statement of Financial Position PFI and LIFT schemes:

	<b>31 March 2016</b>	<b>31 March 2015 restated</b>
	<b>£m</b>	<b>£m</b>
<b>Gross PFI, LIFT or other service concession liabilities</b>	<b>9,819</b>	<b>9,499</b>
<b>Of which liabilities are due</b>		
- not later than one year;	440	403
- later than one year and not later than five years;	1,701	1,561
- later than five years.	7,678	7,535
Finance charges allocated to future periods	(5,173)	(5,183)
<b>Net PFI, LIFT or other service concession arrangement obligation</b>	<b>4,646</b>	<b>4,316</b>
- not later than one year;	121	111
- later than one year and not later than five years;	522	456
- later than five years.	4,003	3,749

The prior year gross obligations under the finance lease element of service concessions has been amended by two foundation trusts and the consolidated accounts note has been updated. The net obligation for the prior year is unchanged.

### Note 29.2 Total service concession arrangement commitments

NHS foundation trusts have obligations to make the following payments in respect of on-Statement of Financial Position PFI, LIFT and other service concession arrangements:

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£m</b>	<b>£m</b>
Total future payments committed:		
- not later than one year;	1,036	941
- later than one year and not later than five years;	4,297	3,863
- later than five years.	22,867	22,195
<b>Total</b>	<b>28,200</b>	<b>26,999</b>

### Note 29.3 Analysis of amounts payable to service concession operator

	2015/16 £m	2014/15 £m
<b>Unitary payment payable to service concession operator</b>	<b>1,032</b>	<b>914</b>
<b>Consisting of:</b>		
- Interest charge	263	254
- Repayment of finance lease liability	114	103
- Service element	454	399
- Capital lifecycle maintenance	61	50
- Revenue lifecycle maintenance	27	2
- Contingent rent	110	103
- Other	3	3
<b>Other amounts paid to operator under the service concession contract</b>	<b>10</b>	<b>74</b>
<b>Consisting of:</b>		
- Services purchased	10	13
- Other	-	61
<b>Total amount paid to service concession operator</b>	<b>1,042</b>	<b>988</b>

### Note 30 Off-SoFP PFI, LIFT and other service concession arrangements

NHS foundation trusts incurred the following charges in respect of off-Statement of Financial Position PFI schemes:

	31 March 2016 £m	31 March 2015 £m
Charge in respect of the off SoFP PFI, LIFT or other service concession arrangement for the period	7	7
Commitments in respect of off-SoFP PFI, LIFT or other service concession arrangements:		
- not later than one year;	1	7
- later than one year and not later than five years;	5	5
- later than five years.	8	9
<b>Total</b>	<b>14</b>	<b>21</b>

## Note 31 Financial instruments

### Note 31.1 Financial assets

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available-for- sale £m	Total £m
<b>Assets as per SoFP as at 31 March 2016</b>					
Trade and other receivables excluding non financial assets	2,625	-	-	-	2,625
Other investments	12	-	1	-	13
Other financial assets	11	-	-	2	13
hand	3,344	-	-	-	3,344
NHS charitable funds financial assets	145	95	-	24	264
<b>Total at 31 March 2016</b>	<b>6,137</b>	<b>95</b>	<b>1</b>	<b>26</b>	<b>6,259</b>

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available-for- sale £m	Total £m
<b>Assets as per SoFP as at 31 March 2015</b>					
Trade and other receivables excluding non financial assets	2,448	-	-	-	2,448
Other investments	4	-	-	-	4
Other financial assets	25	-	-	-	25
hand	3,971	-	-	-	3,971
NHS charitable funds financial assets	144	95	-	23	262
<b>Total at 31 March 2015</b>	<b>6,592</b>	<b>95</b>	<b>-</b>	<b>23</b>	<b>6,710</b>

### Note 31.2 Financial liabilities

	31 March 2016 £m	31 March 2015 £m
<b>Financial liabilities</b>		
Borrowings excluding finance lease and PFI liabilities	3,461	2,425
Obligations under finance leases	148	146
Obligations under PFI, LIFT and other service concession contracts	4,646	4,316
Trade and other payables excluding non financial liabilities	4,652	4,176
Other financial liabilities	97	96
Provisions under contract	306	327
NHS charitable funds financial liabilities	5	4
<b>Total financial liabilities</b>	<b>13,315</b>	<b>11,490</b>

There were no financial liabilities held at fair value through income and expenditure at 31 March 2016 (31 March 2015: nil).

### **Note 31.3 Financial risk management**

The risks arising from financial instruments and the NHS foundation trust sector's policies and processes in response to these risks are described below. Individual NHS foundation trusts may have their own bespoke policies and processes in place to deal with the risks they face as an entity.

#### Liquidity risk

The level of income generated by NHS foundation trusts is dependent on the contractual arrangements they have with their commissioners, whose resources are voted on annually by Parliament. In the majority of cases, these contractual arrangements are either based on a tariff for services performed or on a contract based on assumptions for the amount of work to be carried out by the NHS foundation trust.

Under section 63 of the National Health Service Act 2006, NHS foundation trusts are required to carry out their functions effectively, efficiently and economically and under their licence conditions, they are required to have systems and processes in place to ensure they comply with that duty and to ensure they are able to continue as a going concern as defined by generally accepted accounting practice. NHS Improvement (in exercise of Monitor's functions) supervises the risk of individual NHS foundation trusts breaching these and other licence conditions relating to finance by reviewing a range of financial information and calculating a financial sustainability risk rating for each trust. If it considers an NHS foundation trust to be at risk of breaching its licence conditions, it may open an investigation and subsequently take enforcement action including intervening in the management of the trust using its powers under the Health and Social Care Act 2012.

Details of the Risk Assessment Framework used by Monitor and now NHS Improvement to monitor these risks and risk ratings for individual NHS foundation trusts can be accessed on the Monitor website ([www.gov.uk/monitor](http://www.gov.uk/monitor)). This regulatory framework will change for 2016/17 but this has not yet been finalised.

As disclosed within the accounting policies at Note 1.23, the auditors of 29 NHS foundation trusts have included an emphasis of matter paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts (2014/15: 21). In the NHS sector, the focus is on the continuity of services and Monitor's regulatory regime is established to ensure that provision of commissioner requested services is maintained. As such, it is deemed that there is not a risk that the wider sector would fail to meet its liabilities as they fall due.

#### Credit risk

The vast majority of the NHS foundation trust sector's income is generated from public sector bodies and as such is exposed to low credit risk.

NHS foundation trusts are permitted to generate income derived from private patients and overseas patients without reciprocal arrangements, however this income contributes only 1.13% of total income from activities generated in the year to 31 March 2016 (2014/15: 1.08%). Other sources of income from non-public sector bodies amount to a small proportion of total foundation trust income. Accordingly, the effective credit risk posed by income derived from private and overseas patients or non-public sector entities to the sector is low. Within cash and cash equivalents, £3.3 million is held with the Government Banking Service and National Loans Fund. Individual foundation trusts have confirmed that they do not consider these deposits to be exposed to significant credit risk.

The maximum exposures as at 31 March 2016 are in receivables, as disclosed in the trade and other receivables note.

#### Currency risk

The NHS foundation trust sector operates principally within England and as such has only negligible amounts of transactions, assets and liabilities which are not in Sterling. Therefore the NHS foundation trust sector has low exposure to currency risk.

#### Interest rate risk

NHS foundation trusts have the power to enter into loans and working capital facilities with commercial lenders. NHS foundation trusts are also able to borrow from the Department of Health, including its Independent Trust Financing Facility (ITFF). The term of DH/ITFF loans can range up to 25 years with the interest rate fixed at the National Loan Fund fixed rate for the period of the loan prevailing on the date of signing of the loan agreement.

Under the Risk Assessment Framework, NHS foundation trusts are risk rated on their ability to meet debt service costs, thus ensuring foundation trusts minimise and mitigate their exposure to interest rate risk.

**Note 31.4 Fair values of financial assets at 31 March 2016**

	Book value	Fair value
	£m	£m
Non-current trade and other receivables excluding non financial assets	94	94
Other investments	18	18
Other	294	292
NHS charitable funds non-current financial assets	24	24
<b>Total</b>	<b>430</b>	<b>428</b>

**Note 31.5 Fair values of financial liabilities at 31 March 2016**

	Book value	Fair value
	£m	£m
Non-current trade and other payables excluding non financial liabilities	23	23
Provisions under contract	127	129
Loans	2,548	2,548
Other	1,662	1,620
<b>Total</b>	<b>4,360</b>	<b>4,320</b>

**Note 32 Analysis of NHS charitable funds reserves**

	31 March 2016 £m	31 March 2015 £m
<b>Restricted funds:</b>		
Endowment funds	136	138
Other restricted income funds	72	65
<b>Unrestricted funds:</b>		
Unrestricted income funds	155	157
Revaluation reserve	2	3
Other reserves	2	2
<b>Total</b>	<b>367</b>	<b>365</b>

54 NHS foundation trusts consolidate NHS charitable funds where the trust determines they have control (2014/15: 55) as outlined in accounting policy 1.1.

Restricted funds are funds that are to be used in accordance with specific restrictions imposed by the donor, for example where the donor has specified that their donation should be spent on a specified ward, patients, nurses or project fund. Endowment funds are funds which the trustees are required to invest or to keep and use for the charity's purposes.

Unrestricted income funds comprise those funds that the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include general funds, where the donor has not specified or restricted the use the charity may make of their donation. General funds additionally generate income from Gift Aid, investment income, interest and donations given specifically to cover running costs.

The sum of the absorption gains and losses rows in the other notes to the accounts do not equal the gain presented in this note, as not all notes (for example payables and receivables) contain details of the movements in the year.

## Note 33 Losses and special payments

	2015/16		2014/15	
	Total number of cases Number	Total value of cases £m	Total number of cases Number	Total value of cases £m
<b>Losses</b>				
Cash losses	12,968	2	23,550	1
Fruitless payments	371	-	308	1
Bad debts and claims abandoned	23,202	30	22,514	19
Stores losses and damage to property	5,323	8	5,153	8
<b>Total losses</b>	<b>41,864</b>	<b>40</b>	<b>51,525</b>	<b>29</b>
<b>Special payments</b>				
Extra-contractual payments	5	-	1	-
Extra-statutory and extra-regulatory payments	9	-	13	-
Compensation payments	258	1	381	2
Special severance payments	27	1	41	1
Ex-gratia payments	5,120	8	5,548	9
<b>Total special payments</b>	<b>5,419</b>	<b>10</b>	<b>5,984</b>	<b>12</b>
<b>Total losses and special payments</b>	<b>47,283</b>	<b>50</b>	<b>57,509</b>	<b>41</b>
Compensation payments received		1		-

HM Treasury requires additional disclosure of losses or special payments individually in excess of £0.3 million.

In 2015/16 five individual losses and one special payment were reported in excess of £0.3 million:

- Wrightington, Wigan and Leigh NHS Foundation Trust recorded £1.1 million written off due to a flood at Wrightington hospital resulting in stock loss and property damage.
- Basildon and Thurrock University Hospitals NHS Foundation Trust recorded £0.9 million write off for a capital project design fees.
- Bradford District Care NHS Foundation Trust recorded a £0.5 million loss in respect of flooding at the New Mill site.
- Royal Surrey County Hospital NHS Foundation Trust reported losses of £0.4 million regarding pharmacy drug write offs in the year and;
- Guy's and St Thomas' Hospital NHS Foundation Trust reported £0.3 million losses relating to a debt with HMRC for prior years tax and NI claims that was written off in year.

In 2014/15 three individual losses and special payments were reported in excess of £0.3 million in relation to:

- Peterborough and Stamford Hospitals NHS Foundation Trust,
- East Kent Hospitals University NHS Foundation Trust and
- Cambridgeshire and Peterborough NHS Foundation Trust.

The total losses disclosed here are higher than the amounts included in the line 'Losses, ex gratia & special payments' in note 5.1 as NHS foundation trusts may include some losses in other lines within that note.

### Note 34 Transfers by absorption

Most business combinations within the public sector are accounted for using absorption accounting principles. Under this approach, balances are written out by the divesting organisation and recorded by the receiving organisation at their book values at the point in transfer. A gain or loss corresponding to the value of net assets is recognised within income and expenditure. More details are provided in accounting policy 1.1.

#### Transactions accounted for under normal absorption accounting: 2015/16

The following absorption transaction occurred within the NHS foundation trust sector during 2015/16 and so the accounting entries have been eliminated within these consolidated accounts:

Receiving NHS foundation trust	Divesting body	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
South Essex Partnership NHS Foundation Trust	East London NHS Foundation Trust	1 April 2015	37	-	-	-	37	-

Opposite entries have been recorded in the accounts of the divesting NHS foundation trust and so the impact of this transactions on the consolidated foundation trust accounts is nil. Two other transfers between foundation trusts were recorded in 2015/16 but all entries round to below £1 million.

The following absorption transactions occurred between NHS foundation trusts and other NHS bodies during 2015/16 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

NHS foundation trust	Nature of transaction	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
Chelsea and Westminster NHS Foundation Trust	Transfer from West Middlesex University Hospital NHS Trust	1 September 2015	115	20	(24)	(36)	75	53
South Devon Healthcare NHS Foundation Trust (subsequently Torbay and South Devon NHS Foundation Trust)	Transfer from Torbay and Southern Devon Health and Care NHS Trust	1 October 2015	59	12	(11)	(21)	39	-
<b>Totals</b>			<b>174</b>	<b>32</b>	<b>(35)</b>	<b>(57)</b>	<b>114</b>	<b>53</b>

In addition there were 5 transfers in the foundation trust sector to/from NHS Property Services with a net gain on absorption of £1 million.

The sum of the absorption gains and losses rows in the other notes to the accounts do not equal the gain presented in this note, as not all notes (for example payables and receivables) contain details of the movements in the year.

Other transfers by absorption individually round to less than £1 million.

Transactions accounted for under normal absorption accounting: 2014/15

The following absorption transactions occurred within the NHS foundation trust sector during 2014/15 and so the accounting entries have been eliminated within these consolidated accounts:

Receiving NHS foundation trust	Divesting body	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
Frimley Health NHS Foundation Trust	Heatherwood and Wexham Park NHS Foundation Trust	1 October 2014	104	34	(47)	-	91	91
Royal United Hospitals Bath NHS Foundation Trust	Royal National Hospital For Rheumatic Diseases NHS Foundation Trust	1 February 2015	7	3	(3)	-	7	7

Opposite entries have been recorded in the accounts of the divesting NHS foundation trust and so the impact of these transactions on the consolidated foundation trust accounts is nil.

The following absorption transactions occurred between NHS foundation trusts and other NHS bodies during 2014/15 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

NHS foundation trust	Nature of transaction	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
Royal Free London NHS Foundation Trust	Transfer from Barnet and Chase Farm NHS Trust	1 July 2014	249	34	(60)	(37)	186	146
South Central Ambulance NHS Foundation Trust	Transfer from NHS Direct NHS Trust	1 April 2014	-	39	(32)	(1)	6	-
Mid Staffordshire NHS Foundation Trust	Transfer to University Hospitals of North Midlands NHS Trust	1 November 2014	(92)	(11)	23	-	(80)	(80)
Mid Staffordshire NHS Foundation Trust	Transfer to Royal Wolverhampton Hospitals NHS Trust	1 November 2014	(31)	-	2	-	(29)	(29)
<b>Totals</b>			<b>126</b>	<b>62</b>	<b>(67)</b>	<b>(38)</b>	<b>83</b>	<b>37</b>

The sum of the absorption gains and losses rows in the other notes to the accounts do not equal the gain presented in this note, as not all notes (for example payables and receivables) contain details of the movements in the year.

In addition there were absorption transactions that round to below £1 million in the accounts of Great Western Hospitals NHS Foundation Trust, South Warwickshire NHS Foundation Trust and West Midlands Ambulance NHS Foundation Trust.

## Note 35 Related parties

NHS foundation trusts are public benefit corporations established under the National Health Service Act 2006 (relevant provisions of which replaced the provisions of the Health and Social Care (Community Health and Standards) Act 2003 relating to NHS foundation trusts). The Department of Health is regarded as a related party.

During the period, NHS foundation trusts had a significant number of material transactions with the Department of Health and with other entities for which the Department of Health is regarded as the parent department, i.e. NHS England, NHS trusts, clinical commissioning groups, NHS agencies and all special health authorities. In addition NHS foundation trusts had a significant number of material transactions with other Government bodies including central and local government bodies. NHS foundation trusts also had transactions with a number of charitable funds which are not consolidated into these accounts and certain members of the trustees are also members of the NHS foundation trust boards.

Details of NHS foundation trusts' material related party transactions are shown in the accounts of the individual NHS foundation trust.

	Receivables		Payables	
	31 March 2016 £m	31 March 2015 £m	31 March 2016 £m	31 March 2015 £m
Value of balances (not salary) with board members and key staff	3	-	-	-
Value of balances (other than salary) with related parties in relation to doubtful debts	(3)	(1)	-	-
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year	1	-	-	-
Value of balances with other related parties				
Department of Health and other NHS bodies	1,858	1,826	875	849
NHS charitable funds	12	10	-	1
Associates / Joint Services	13	12	11	9
Other	-	-	-	1
<b>Total</b>	<b>2,195</b>	<b>2,191</b>	<b>1,325</b>	<b>1,296</b>
	Income		Expenditure	
	2015/16 £m	2014/15 £m	2015/16 £m	2014/15 £m
Value of transactions with board members	15	-	13	12
Value of transactions with key staff members	-	-	-	-
Value of transactions with other related parties				
Department of Health and other NHS bodies	43,765	40,985	2,670	2,371
NHS charitable funds	66	60	3	4
Associates / Joint Services	104	31	141	72
Other	-	-	8	6
<b>Total</b>	<b>44,901</b>	<b>41,829</b>	<b>5,102</b>	<b>4,649</b>

### Note 36 Newly authorised foundation trusts

In line with the FT ARM, balances of newly authorised foundation trusts have been included within these consolidated accounts from the date of authorisation only; as such no prior period comparatives have been included for these foundation trusts. Similarly, transactions for these trusts are only included within these consolidated accounts from the date of authorisation.

#### Newly authorised foundation trusts in 2015/16

As detailed in the Foreword, two foundation trusts were authorised during 2015/16. These new foundation trusts brought £466 million of net assets into the sector during the year. The table below shows the dates of authorisation of the two new foundation trusts, and their opening balances as at their dates of authorisation as a foundation trust.

Foundation trust	Date of authorisation	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets
		£m	£m	£m	£m	£m
Bradford District Care NHS Foundation Trust	1 May 2015	54	23	(16)	(4)	57
Oxford University Hospitals NHS Foundation	1 October 2015	690	152	(155)	(278)	409
<b>Totals</b>		<b>744</b>	<b>175</b>	<b>(171)</b>	<b>(282)</b>	<b>466</b>

#### Newly authorised foundation trusts in 2014/15

Six foundation trusts authorised in 2014/15 brought £922 million of net assets into the sector during the year. The table below shows the dates of authorisation of the six foundation trusts, and their opening balances as at their dates of authorisation as a foundation trust.

Foundation trust	Date of authorisation	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets
		£m	£m	£m	£m	£m
Bridgewater Community Healthcare NHS Foundation Trust	1 November 2014	19	19	(17)	-	21
Derbyshire Community Health Services NHS Foundation Trust	1 November 2014	80	32	(26)	-	86
Royal United Hospitals Bath NHS Foundation Trust	1 November 2014	187	29	(22)	(8)	186
St George's University Hospitals NHS Foundation Trust	1 February 2015	326	96	(94)	(69)	259
Kent Community Health NHS Foundation Trust	1 March 2015	14	31	(25)	-	20
Nottinghamshire Healthcare NHS Foundation Trust	1 March 2015	359	64	(46)	(27)	350
<b>Totals</b>		<b>985</b>	<b>271</b>	<b>(230)</b>	<b>(104)</b>	<b>922</b>

## **Note 37 Prior period adjustments**

### Sector-wide changes in accounting policy

In 2015/16, there have been no changes in accounting policy requiring sector-wide restatement of comparatives. The application of IFRS 13 has not resulted in any material restatement by any NHS foundation trusts.

### Other prior period adjustments applied by NHS foundation trusts

Other prior period adjustments in the 2015/16 consolidated NHS foundation trust accounts would arise from NHS foundation trusts in their individual 2015/16 accounts correcting, restating or reclassifying 2014/15 or opening figures.

None of the prior period adjustments made by individual NHS foundation trusts are material to the consolidated accounts. As a result, no prior period adjustments have been made in the Consolidated NHS Foundation Trust Accounts. Any instances where an individual NHS foundation trust has made a prior period adjustment or restated prior period numbers have been recorded as in-year movements in these consolidated accounts. These are clearly shown in each movement note supporting the Statement of Financial Position. These adjustments are individually and collectively immaterial to the consolidated accounts.

### Restatement of disclosures

*Other Operating income (note 4):* Prior year numbers have been updated to reflect a new category added to the accounts from 'Support from the Department of Health for mergers'. For comparability a comparative has been disclosed which was previously recorded in other income.

*Operating expenses (note 5.1):* Prior year internal audit costs have been reclassified from other expenditure to maintain comparability.

*Staff numbers (note 6.2):* A new row has been added to note 6.2 for "healthcare science staff" to align with the NHS Occupation Code guidance. Prior year staff numbers have been updated for comparability.

*Finance expenditure (note 11.1):* The finance expenditure on loans from the Department of Health include those previously classified as Loans from the Independent Trust Financing Facility (ITFF).

*Borrowings (note 23):* Loans from the Department of Health include those previously classified as Loans from the Independent Trust Financing Facility (ITFF).

*Service concession gross obligations (note 29.1):* The prior year gross obligations under the finance lease element of service concessions has been amended by two foundation trusts and the consolidated accounts note has been updated. The net obligation for the prior year is unchanged.

## **Note 38 Events after the reporting date**

As at 31 March 2016 there were 153 NHS foundation trusts (152 licensed to provide NHS funded healthcare). Birmingham Community Healthcare NHS Trust and Sussex Community NHS Trust were authorised by Monitor as foundation trusts on 1 April 2016. Mersey Care NHS Trust and Wirral Community NHS Trust were authorised by Monitor as foundation trusts on 1 May 2016.

Mersey Care NHS Foundation Trust acquired Calderstones Partnership NHS Foundation Trust on 1 July 2016. This transaction led to no overall change to the foundation trust consolidated group.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

In accordance with the requirements of IAS 10 events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.



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