Monitor

Independent Regulator
of NHS Foundation Trusts

Annual report and accounts 2010/11

Monitor – Independent Regulator of NHS Foundation Trusts

Annual report and accounts
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Monitor's vision, mission and strategy

Our vision: what is our aspiration for the future?

An affordable, devolved healthcare system in which patients and service users receive excellent care and taxpayers achieve value for money, through autonomous, well-led, financially robust providers that respond to commissioners' requirements and patients' and service users' choices.

Our mission: what is Monitor's role?

To provide a regulatory framework which ensures that NHS foundation trusts are well-led (from both a finance and quality perspective) and financially robust so that they are able to deliver excellent care and value for money.

Strategy: how will we deliver value?

1. **Operate a rigorous assessment process** and support the development of all eligible applicant trusts to become NHS foundation trusts, ensuring they are well-governed, financially robust, legally constituted and meet the required quality threshold.

2. **Operate a proportionate, risk-based regulatory regime**, alongside the Care Quality Commission, that ensures that NHS foundation trusts are well-governed (from both a finance and quality perspective) and financially robust. Where needed, ensure interventions are timely and effective to prevent and remedy significant breaches of their terms of authorisation.

3. **Promote the development of well-led NHS foundation trusts** that are capable of delivering excellent care and value for money as they respond to commissioners' requirements and patients' and service users' choices.

4. **Work with partners to contribute to and influence the development of an affordable, devolved system of healthcare provision**. Ensure that the system has a coherent regulatory regime and effective incentives for providers to deliver excellent care for patients and service users and value for money for taxpayers.

5. **Continue to improve as a high-performing organisation** that attracts, develops and retains talented people; operates efficiently; remains legally compliant; and meets high professional standards.

Contents

Chair's foreword

Welcome to Monitor's 2010/11 annual report and accounts which provides an overview of progress in each of our five strategy areas alongside our accounts for the financial year.

There have been significant developments, both within and outside Monitor, this year. In the wider political environment a new Coalition Government took power and major reforms were proposed to the NHS in the Health and Social Care Bill, including a new role for Monitor which has developed further following the Government's listening exercise. In addition, there was a review of arm's-length bodies and spending restrictions were introduced by the Government.

During these changes we have remained focused on our core objective of making sure, through our assessment, compliance and development activities, that foundation trusts are well run on behalf of patients and taxpayers, identifying problems early when they occur, and ensuring that boards of NHS foundation trusts are resolving them.

Throughout 2010/11, we have maintained our high standard of assessment. We assessed 13 NHS trusts, including the first ambulance trusts, and of these we authorised seven for foundation trust status while six were either postponed or deferred.

We also continued to ensure that applicants and foundation trusts were focused on the quality of services they provide. Our *Quality Governance Framework* assesses the combination of structures and processes in place, both at and below board level, which enable a trust's board to assure the quality of care it provides for patients. The framework has been operational in the assessment process since August 2010 and, following consultation, was introduced into our *Compliance Framework* for 2011/12.

Partnership working remains a key focus for us. We have further developed our relationship with the Care Quality Commission (CQC) and updated our joint memorandum of understanding which sets out in detail how we work together at both a strategic and operational level. The CQC ensures compliance with essential standards of quality and safety while Monitor holds boards to account for their governance standards. The effective regulation of healthcare relies on us working together effectively to carry out these complementary roles.

Over the course of the year we found three trusts to be in significant breach of their terms of authorisation, compared to 14 in 2009/10. We believe this decrease is due to our strengthened annual planning process, which requires trusts to focus on mitigating risk effectively, and a continued reduction in the number of MRSA cases. However, this has also been a year of transition for our governance ratings in compliance. The Department of Health made changes to its *Operating Framework* following the election of the Coalition Government, which has impacted on the triggers we use for governance,

resulting in fewer trusts being considered for significant breach of national priorities. Additionally, the CQC has introduced its own compliance regime against registration standards and we are now reflecting their judgements in our own governance triggers. Over time we believe these changes taken together will be more effective at helping us identify early where trusts are having significant governance issues.

We have given evidence to the Public Inquiry into the role of the commissioning, supervisory and regulatory bodies in the monitoring of Mid Staffordshire NHS Foundation Trust. We will consider carefully any further recommendations that come out of the Inquiry that relate to our role. We have already improved our internal processes following a lessons learned exercise – more details can be found on page 48.

During 2010/11 many NHS foundation trusts took over the provision of community services, as all primary care trusts were required to separate their commissioning and provider functions. With advice from the Co-operation and Competition Panel, we assess these transactions for competition issues. Beyond this, however, it is not our role to approve the transactions, although we do consider the potential risks to a foundation trust's finances and governance, and issue the trust with an indicative regulatory risk rating. It is then for the trust board to decide whether or not to proceed with the acquisition, taking Monitor's risk evaluation into account. This has meant a considerable programme of work for Monitor, with 31 significant transactions being referred to us in 2010/11 and early 2011/12. To accommodate this substantial additional workload, we almost doubled the capacity of our assessment team on a temporary basis.

Within this team and across the organisation we are pleased to have been able to continue to attract and retain high calibre staff in 2010/11 despite the considerable uncertainty over our future role. We remain committed to the organisational values that we have developed over the course of the year, in consultation with staff, and plan to develop these further as Monitor's role evolves.

At the end of 2010/11 I was delighted to be appointed, by the Secretary of State for Health, as Chair of Monitor. I would like to thank Monitor's previous Chair, Steve Bundred, for his leadership of the organisation from May 2010 to March 2011. My first critical task as Chair is to appoint a permanent Chief Executive and I hope that this process will be concluded in the near future.

I am looking forward to leading Monitor during the next phase of reform in health and adult social care. Subject to Parliamentary approval, it is planned that we will start to take on our new functions from October 2012. Our core duty will be to protect and promote patients' interests. To do this, we must establish ourselves as highly effective and credible in our new role whilst continuing to ensure that foundation trusts are well-led and financially strong.

Above all, I want to see Monitor making a material and positive difference to the quality of care received by patients and service users, and to the value for money obtained for taxpayers. I look forward to working with my Board, executive team, staff at Monitor and other stakeholders as we do this.

Dr David Bennett
Chair and Interim Chief Executive
5 July 2011

Overview of Monitor and NHS foundation trusts

Monitor is the independent regulator of NHS foundation trusts. Established in 2004[1], we authorise and then regulate NHS foundation trusts, ensuring they are legally constituted, financially robust and well-led in terms of both quality and finance. It is our role to make sure NHS foundation trust boards operate effectively so that trusts are well run on behalf of patients and taxpayers. When problems occur, we seek to identify them early so that robust plans can be put in place to resolve them before they become major concerns.

We have specific statutory functions and discretion over their delivery. Our primary responsibilities are:

- assessing applications for NHS foundation trust status and authorising successful applicants;
- designing and operating the regulatory regime to ensure that NHS foundation trusts are financially robust and well governed;
- taking action if there is evidence that an NHS foundation trust is in significant breach of the conditions Monitor sets for the way it operates;
- taking and enforcing decisions on matters concerning the *Principles and Rules for Co-operation and Competition* within the NHS foundation trust sector;
- supporting the NHS foundation trust sector to operate effectively, efficiently and economically;
- considering the de-authorisation of an NHS foundation trust which is seriously failing to comply with its terms of authorisation or any requirements imposed on it under any enactment;
- setting the reporting requirements for NHS foundation trusts;
- reporting on the performance of the foundation trust sector and providing details of regulatory action we have taken; and
- exercising our own functions effectively, efficiently and economically.

NHS foundation trusts are part of the NHS. They have greater freedom than NHS trusts to run their own affairs and are not subject to central Government control. Instead, they can respond to the needs of their local communities through their members and governors, using their freedoms to decide how best to deliver the kinds of services which their patients and service users want. As at 1 July 2011, there are 137 NHS foundation

[1] The Health and Social Care (Community Health and Standards) Act 2003. The provisions of this Act that relate to Monitor and NHS foundation trusts have now been consolidated into the National Health Service (NHS) Act 2006.

trusts, which represent approximately 57% of all acute providers, 73% of all mental health providers and 18% of ambulance trusts. Their freedoms include:

- keeping any surplus earned, or the proceeds from the sale of assets or land, to invest in improving care for patients and service users;
- the ability to borrow to fund investments up to a limit set under Monitor's *Prudential Borrowing Code*; and
- developing incentives for staff to encourage innovation and improvement outside nationally agreed contracts.

With these freedoms come important responsibilities. NHS foundation trusts are accountable for their own success or failure to:

- their local communities, through their members and governors;
- their commissioners, through legally binding contracts to provide agreed levels of care which reflect the needs of their local communities;
- Parliament, through the legal requirement to lay their annual accounts before Parliament;
- the Care Quality Commission (CQC)[2], through the legal requirement to register and meet the associated standards for the quality of care provided; and
- Monitor, as the Independent Regulator of NHS Foundation Trusts.

In January 2011, the Government set out its plans for the ongoing reform of the NHS in the Health and Social Care Bill 2011. The vision of a devolved system of healthcare where there is more choice and control for patients, an increased focus on clinical outcomes and greater empowerment for health professionals is one which Monitor supports.
In early April 2011, the Government announced that it was taking the opportunity of a natural break in the passage of the Health and Social Care Bill to "pause, listen and engage." The NHS Future Forum was established to lead this exercise and submitted its report to the Government, following the pause, in June 2011. The Government subsequently published its detailed response to the Forum's recommendations, which describes Monitor's core duty, as part of its proposed new role, as protecting and promoting patients' interests.

[2] CQC is the regulator of quality and safety of health and social care in England. It registers and licenses providers of care services if they meet essential standards of quality and safety and monitors them to make sure they continue to meet these standards.

Operating a rigorous assessment process

Monitor operates a rigorous assessment process that challenges NHS trusts applying for foundation trust status. We must be confident and able to provide assurance to Parliament and a wide range of stakeholders that NHS foundation trusts will be legally constituted, financially sustainable and effectively governed. These are essential requirements for NHS foundation trusts to be able to operate with sufficient autonomy, to deliver national health priorities and to become increasingly responsive to local needs.

Assessment activity during 2010/11

We have continued to maintain our high standards of assessment. During 2010/11, ten trusts were referred to us by the Department of Health, following a trend for a low referral rate seen in 2009/10 (seven trusts referred). In 2010/11, we completed 14 assessments; as a result, seven applicants were authorised and six were either postponed or deferred[3]. This compares to 20 assessments in 2009/10 (14 of these were authorised, one was deferred, four were postponed and one trust withdrew from the process).

Average assessment times have increased over the year. Historically, the assessment process has taken approximately three months to complete. However, in light of our enhanced approach to quality governance and the need for trusts to develop robust mitigation strategies to address the tighter financial environment, this has increased to a period of, typically, nearer four months.

During the year, we adapted our assessment methodology to incorporate ambulance trusts and community trusts. We authorised the first two ambulance trusts on 1 March 2011.

From 1 April 2010, we revised our authorisation criteria to take account of the CQC's registration process. Since then applicant trusts have been required to demonstrate that:

- they are registered without compliance conditions;
- the CQC's overall level of concern is no worse than 'moderate concerns' and 'high confidence' in capacity;
- the CQC is not conducting, or about to conduct, a responsive review into compliance; and
- there is no enforcement or investigation activity ongoing or due to begin, including preliminary investigations into mortality outliers.

[3] A postponement occurs when an applicant trust requests a period of time to resolve an issue that arises during the assessment process. A deferral occurs at Monitor's request when it feels that any issues that have arisen are capable of being resolved within a reasonable period of time. In both cases, the applicant trust does not need to restart the application process.

In feedback from our 2010/11 NHS stakeholder perception survey, 93% of stakeholders agreed that our assessment process is rigorous.

Derbyshire Healthcare NHS Foundation Trust

Strengthening the board

Derbyshire Healthcare NHS Foundation Trust was authorised in 2011 after having been unsuccessful in two earlier assessments.

The trust first came to Monitor in 2007 and subsequently requested a deferral which we agreed to, and imposed a number of conditions which would need to be resolved before assessment could recommence. These included concerns about the board's capacity to deliver the business plan, and a less than satisfactory working capital report. When assessed again in 2008, we were still not satisfied that the trust's board was able to deliver the business plan, or that the trust was financially viable in the medium term.

Monitor recommended that, among other actions, the trust re-examine the skill mix of the non-executive directors and how any gaps on the board could be addressed.

The trust returned to Monitor for assessment in September 2010. The actions the trust had taken in the intervening period, following Monitor's recommendations, were evident. A new Chair had been appointed, along with four new non-executive directors. A new Finance Director had been recruited from an existing foundation trust, and a Director of Business Strategy post had been created. The appointee brought in-depth knowledge of commissioning and an effective working relationship with the local primary care trust. Significant time had been committed to board development activities, focusing heavily on the principles of good governance and the characteristics of high performing boards.

Monitor observed board meetings and held individual meetings at the trust, and the board was clearly very capable. The executive and non-executive teams worked effectively together, which was apparent throughout the assessment process, and from the outset the integrated business plan had been developed and owned jointly.

The trust also demonstrated that it was very focused on quality. Over a period of six months, a team of executive and non-executive directors had visited each service within the trust to assess delivery and performance. They put a scheme in place to rate each service as either Gold, Silver, Bronze or No Podium and encouraged services to meet the criteria to become as highly rated as possible, and to improve year on year. In addition, one of the non-executive directors (NED) was appointed as the board quality champion, and when a NED vacancy arose unexpectedly, the board took the opportunity to revise the skills mix again, appointing a NED with considerable clinical experience in the NHS.

Mike Shewan, Chief Executive of Derbyshire Healthcare NHS Foundation Trust said: "From day one, Monitor's assessment team was very clear about their expectations and gave us every opportunity to provide the evidence they were looking for. We had learned

a lot about the process from our previous assessments and had developed a keen awareness of what Monitor would be looking for.

"We knew that we needed to be operating as a foundation trust board before we became a foundation trust, and so spent a lot of time developing our board and a strong governance structure. We knew that a high performing unitary board was key to our success, not only in order to achieve foundation trust status, but to continue to deliver in the future."

The trust's commitment to improving the board and strengthening organisational capacity, based on feedback from Monitor's assessment process, meant that it was authorised as a foundation trust on 1 February 2011.

A focus on quality

Following the policy work undertaken on quality governance in 2009/10 which involved the development of our *Quality Governance Framework*, 2010/11 has seen its implementation. We completed four pilots of our approach in the first half of the year and then, following consultation, we implemented the new enhanced assessment approach for all authorisations after 1 August 2010. The framework assesses the combination of structures and processes in place, both at and below board level, which enable a trust board to assure the quality of care it provides. We are looking for evidence that:

- boards accurately understand the quality of the care their organisation provides;
- boards are able to assess and mitigate risks to quality;
- quality is seen as a responsibility of the entire board, not only the medical and nursing directors; and
- trusts are committed to continuous quality improvement, and have put in place the tools to address poor performance.

In July 2010, we published an update to the *Guide for Applicants* which incorporated our new *Quality Governance Framework* and detailed the ten questions that Monitor will ask to assess the robustness of the quality governance arrangements in place at applicant trusts, and how they are evaluated and scored. All trusts with an authorisation date after 1 August 2010 have been assessed against this revised framework. These trusts have told us that they found the *Quality Governance Framework* challenging yet fair.
In an environment of tighter public finances and the need to make significant efficiency savings, it is crucial that all boards of NHS organisations are able to identify and manage risks to the quality of their services in the same way they would their financial position.

Robust, well-developed and comprehensive cost improvement plans have been the cornerstone of successful applications over the past year, with poor plans still a major factor in the failure of trusts being authorised. It is vital that we find evidence that the

potential impact on quality and safety of services has been considered and that the board has plans in place to monitor risks to quality on an ongoing basis.

Lessons learned

In January 2011 we published *Lessons learned from recent NHS foundation trust applications* which sets out some of the lessons learned from applicants which have been deferred, rejected or have postponed their application. Some of the key areas we identified included:

- the lack of a robust process of board self-certification;
- a lack of evidence of sufficient board challenge in areas of key risk;
- mitigation strategies not robust enough;
- cost improvement plans needing more development in order to address quality concerns;
- a failure to address historical due diligence recommendations; and
- a failure to demonstrate credible plans to reduce private patient income below the private patient income cap once foundation trust status is achieved.

We communicated the lessons learned document to all NHS trusts and other key stakeholders and encouraged applicant trusts to use the learnings alongside the *Guide for Applicants*.

Partnership working

We are committed to maintaining our strong relationship with the CQC and to working with them to ensure that we have an up-to-date view of their position on applicant trusts. We have joint meetings with the CQC and the relevant strategic health authority and primary care trust as part of the assessment process to share information regarding quality at the applicant trust. We also require a letter of assurance from the CQC and may postpone our authorisation decision if this letter does not provide the confirmation that the trust meets the authorisation criteria. Throughout the assessment process we also review the CQC's Quality Risk Profile for an applicant trust.

To reflect these operational practices, in October 2010 we revised our memorandum of understanding with the CQC to set out in more detail how we work together. We further refined the memorandum in May 2011 to ensure it was up to date.

We continue to communicate our assessment approach to aspirant trusts. We have made a series of presentations to applicant trusts and to those trusts yet to apply for foundation trust status, including those which are part of the Foundation Trust Network's applicant development programme.

Financial assumptions

At least annually, Monitor revisits its assessment assumptions to ensure they reflect the current risks in the system. Following a review of the 2009 Pre-Budget Report, the 2010 Budget and publication of *The Operating Framework for the NHS in England 2010/11*, on 1 May 2010 we made some changes to the financial assumptions used in the assessment of applicant trusts. These changes were designed to ensure that the assumptions reflected a more up-to-date view of the risks in the system. They included revising the acute downside case to take account of the level of risk and uncertainty in overall health expenditure, and a new risk for acute providers relating to the need to manage demand growth.

In April 2011, we reviewed the efficiency assumptions again following the Government's Comprehensive Spending Review, the publication of *The Operating Framework for the NHS in England 2011/12* and the latest inflation forecasts from the Office for Budget Responsibility.

Developing the assessment process

As at 1 July 2011, we have authorised 137 out of approximately 258 eligible trusts, so we are approximately 53% through the pipeline of applications. Since we first started authorising foundation trusts, the economic environment has tightened and there are more risks facing provider organisations. In light of this, and given that all trusts are facing increasing financial challenges, delivering an all foundation trust economy by April 2014, which is the Government's expectation, will be challenging.

We continue to engage with the Department of Health to help it ensure that the applicant pipeline refers good quality applicants ready to be assessed. In May 2011, we agreed a range of mechanisms with the Department of Health to ensure our processes and approaches are aligned.

Given the challenges outlined above, in 2011/12 we will enhance and develop our assessment function by:

- maintaining the quality and rigour of the assessment process while managing the scaling up of our assessment function, to enable us to assess the remaining NHS trusts; and
- reviewing the assessment process to ensure it remains efficient and appropriately challenging.

Performance against 2010/11 business plan objectives: operating a rigorous assessment process

Themes	Actions	Outcome
Maintain a high and consistent standard of assessment.	Provide Monitor's Board with high quality analysis and insight to inform their decisions.	**Action completed**
	Continue to review the financial scenarios used in the assessment process to take account of the more challenging financial environment and the next planning cycle.	**Action completed** Revised financial assumptions published in May 2010 and April 2011.
	Continue to enhance our approach to quality governance. Implement the enhancements to our assessment process relating to quality governance and assessment of the quality impact on cost improvement plans as detailed in *Consultation on an update to the Guide for Applicants – Quality Governance.*	**Action completed** See page 12.
	Ensure our communications reflect the impact of the economic challenges for applicant NHS foundation trusts.	**Action completed** Messages on economic challenges included in wide range of communications and briefings.
	Communicate our new quality governance approach effectively to all stakeholders through a range of communications channels.	**Action completed** Approach communicated by range of methods including an update to the *Guide for Applicants*, presentations to trusts, speeches, and media briefings.
	Continue to develop an effective working relationship with the CQC to ensure appropriate input into governance and quality performance issues during the assessment process.	**Action completed** See page 13.
	Continue to refine the scope of work of independent accounting firms to ensure Monitor receives high quality, independent advice covering financial reporting procedures and working capital reviews.	**Action completed** Reviewed and concluded that scope remains appropriate but minor revisions were made.

	Continue to ensure that the constitutions and all legal governance arrangements of applicant trusts are legally compliant.	**Action completed**
Support the development of trusts applying for NHS foundation trust status.	Continue to share learning with strategic health authorities and applicant trusts, including best practice guidance.	**Action completed** • Lessons learned document published in January 2011. • Presentations to trusts. • Dialogue with strategic health authorities when requested.
Ensure Monitor has the capacity and capability to conduct timely assessment of applicants aligned with the Department of Health's planned trajectory of applicants.	Continue to review the structure of the assessment team, as part of the Mapping our Future project, and the resources required to match capacity to the Department of Health's trajectory of applicants for 2010/11, starting assessments as soon as possible and not later than six months after the Secretary of State's referral.	**Action completed** • All assessments started within six months of referral. • Team capacity reviewed to manage risk rating an increased number of transactions.
	Finalise and apply a new methodology to assess ambulance trusts when referred by the Department of Health and potentially develop a methodology to assess providers of community services.	**Action completed**
	Ensure provision of advice on legal issues relevant to applications for NHS foundation trust status from bodies other than acute and mental health NHS trusts (e.g. ambulance trusts, primary care trust provider arms) under section 34 of the 2006 Act.	**Action completed**
	Continue to refine the assessment team training programme to develop staff capabilities, incorporating the revised approach to quality governance in assessment.	**Action completed** Training provided on quality governance, and continuing professional development.

Operating a proportionate, risk-based regulatory regime

Monitor's approach to regulating NHS foundation trusts is proportionate and risk-based. Underpinning this is the principle that we hold trust boards to account for the successful operation of their organisation, and for identifying and dealing with problems.

Where improvements are needed, we work closely with a trust board to ensure it has credible plans in place to deliver these. Where it fails to do this, we will take action, using our formal powers to intervene if necessary.

Our regulatory process

Monitor's compliance process is a rules-based system by which we make an informed and considered decision about whether a trust is in significant breach of its terms of authorisation. If a trust is red-rated for governance risk or has a financial risk rating of 1 or 2, Monitor's Compliance Executive Committee makes a judgement on whether the trust is likely to be in significant breach of its terms of authorisation. If a significant breach is considered likely, members of Monitor's executive team will meet the trust's board in order to gather the evidence required to make a decision.

A recommendation will then be referred to our Compliance Board Committee. This sub-committee of Monitor's main Board will review the evidence available and, if there is no recommendation to use our statutory intervention powers, make a decision on whether that trust is in significant breach of its terms of authorisation. If there is a recommendation to use our intervention powers, Monitor's main Board will make a decision on whether that trust is in significant breach and whether we should intervene; this decision will be based on a recommendation from the Compliance Board Committee. This committee was established in February 2010 to consider cases of potential significant breach and assess the risk of significant transactions involving NHS foundation trusts. Prior to February 2010, Monitor's Board took these decisions.

Significant breach of the terms of authorisation

During 2010/11, three trusts were found in significant breach of their terms of authorisation: Poole Hospital NHS Foundation Trust; Blackpool Teaching Hospitals NHS Foundation Trust; and Tameside Hospital NHS Foundation Trust. This compares to 14 in 2009/10 and there are a number of factors likely to have contributed to this:

- our strengthened annual planning process; the aim of the revised process was to focus foundation trust boards on mitigating risk effectively (more details are on page 29). The second stage of the annual plan review also meant that we were more aware of risks in trusts which had not already required additional regulatory oversight; we could then aim to ensure the trust boards were focused on those risks and had plans in place to mitigate them;
- there was a continued decline in the number of MRSA cases;

- in 2010/11, fewer foundation trusts were prompting further regulatory action based on healthcare-acquired infection rates; and
- we amended the governance triggers we use as proxy indicators for effective governance to reflect the following amendments to the Department of Health's *Operating Framework* in June 2010:
    - the A&E four-hour waiting time target was reduced from 98% to 95%; and
    - the 18 weeks referral-to-treatment waiting time target was removed.

In March 2011, we published a report which set out key learnings from NHS foundation trusts that were found in significant breach during 2010. It looked at issues that led to these trusts getting into difficulty, as well as points relating to their improvement and, in some cases, subsequent removal from significant breach. The main areas where trusts were experiencing problems were:

- formulating effective strategy for the organisation;
- ensuring effective performance – appropriate skills, effective information flows to the board, and board-level dynamics; and
- ensuring accountability through trust boards holding the organisation to account for the delivery of the strategy and seeking assurance that systems of control are robust and reliable.

Driving sustained improvement

University Hospitals of South Manchester NHS Foundation Trust was found in significant breach of its terms of authorisation in July 2009, for healthcare standards and weaknesses in governance after breaching its MRSA contractual target for three consecutive quarters. The trust subsequently reported breaches of the 18-weeks performance target and breaches of the A&E target, which highlighted governance issues and concerns in relation to board effectiveness.

Monitor determined, with the trust, a set of challenging trajectories against which it would hold the trust board to account for progress in addressing the challenges it faced. The trust board had already sought independent reviews of board processes and Monitor required evidence that the findings of these were being implemented. As a result of the reviews, the trust evaluated its board to bring in the necessary skills for the trust to return to and remain in compliance with its terms of authorisation. The trust implemented improved governance and came back into compliance on its MRSA, A&E and 18-weeks targets – a process led by the Chair and CEO over a period of 11 months.

According to the trust, Monitor's key contribution was in the identification of the problem at an early stage. The chair described how Monitor's process 'held up a mirror to the trust' and quickly brought the board to the point where it was no longer discussing whether there were problems, but was forced to identify and deal with them. Monitor's

approach was described as being rational, considered and focused on sustainable solutions rather than short term quick fixes.

In June 2010, the trust was de-escalated from significant breach as a result of the progress it had made to become compliant with its terms of authorisation. Since October 2010, it has been rated green for governance and has a finance risk rating of 3.

To read the full case study, please visit Monitor's website.

Monitor's statutory powers to intervene

When an NHS foundation trust is found in significant breach, Monitor's Board may use its statutory powers of intervention. These are wide-ranging and aim to ensure a trust returns to full compliance with its terms of authorisation. Examples of our powers include appointing expert external advisers to support trusts, or replacing members of the trust board.

During 2010/11, we did not use our intervention powers, whereas we used them on seven occasions in 2009/10. In 2010/11, the reason three trusts (Poole Hospital, Blackpool Teaching Hospitals, and Tameside Hospital) were found in significant breach of their terms of authorisation was mainly financial and at the time of each breach there was sufficient evidence of action being taken to ensure that Monitor did not need to use its statutory powers. Should sufficient progress not be made, Monitor would consider using its statutory powers in the future.

Involving the board of governors

The board of governors of a foundation trust has a pivotal role. Alongside specific statutory duties, the board of governors challenges the board of directors and collectively holds it to account for the trust's performance. In 2009/10, we asked all NHS foundation trusts to nominate a lead governor as a point of contact in circumstances where it might be inappropriate for contact to take place between Monitor and the trust chair, which is the standard communication channel (for example, the potential appointment of a new chair). In consequence, if an NHS foundation trust is in significant breach, we will now involve the lead governor, ensuring that the board of governors has the view of the regulator on the progress the trust is making in addressing identified concerns and failings. This should assist the board of governors in holding the board of directors to account.

Developing our regulatory approach

As we do each year, in 2010/11 we revised our *Compliance Framework* following consultation. This ensures our regulatory framework is fit for purpose, reflecting the context in which NHS foundation trusts operate.

We carried out preparatory work during the year to incorporate Monitor's *Quality Governance Framework* into our regulatory approach. This framework was developed as

part of the process we use to assess if trusts are ready to become foundation trusts. More details on this are on page 12. Following consultation, the *Compliance Framework* for 2011/12 requires a revised self-certification on quality from boards of foundation trusts, confirming (or otherwise) that they have had regard to the *Quality Governance Framework,* serious incidents and complaints.

Other key changes were:

- including, as in previous years, relevant priorities from *The Operating Framework for the NHS in England 2011/12*, which was published on 15 December 2010, including new referral-to-treatment waiting time measures and A&E clinical quality indicators;
- refining our approach on incorporating asset efficiency within our financial risk ratings;
- revising how we will incorporate CQC judgements in our governance risk ratings;
- including the NHS Litigation Authority's Clinical Negligence Scheme for Trusts levels in our governance risk ratings;
- assessing the governance implications of material data submission failures or misrepresentations by NHS foundation trusts on a case-by-case basis; and
- clarifying the regulatory consequences of a financial risk rating of 2.

Overview of regulatory action in 2010/11

The tables on the following pages summarise:

- the instances where Monitor found foundation trusts to be in significant breach of their terms of authorisation during 2010/11;
- those foundation trusts which have demonstrated improvements and are subsequently no longer in significant breach; and
- those foundation trusts which have remained in significant breach throughout 2010/11.

The information is correct as at 24 June 2011. Please visit our website for the latest information on our regulatory action. We also publish an overview of the performance of foundation trusts each quarter on our website.

Once a foundation trust is in significant breach Monitor will meet with the trust regularly in order to ensure that the trust board develops a credible recovery plan and actions against the plan are closely monitored. In the case of financial concerns, Monitor will require the trust to report its financial position on a monthly basis.

Should we find that sufficient progress is not being made, or that new problems have emerged, we will again consider the use of our statutory powers. At all times we work closely with the Care Quality Commission (CQC) and require boards of trusts in significant breach to safeguard quality when implementing recovery plans.

The table below shows the NHS foundation trusts found in significant breach of their terms of authorisation during 2010/11.

Poole Hospital NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in July 2010: the general duty to exercise its functions effectively, efficiently and economically and its governance duty. This was as a result of a failure of financial control and a lack of robustness in the recovery plan prepared in response. After being found in significant breach, the trust developed a revised recovery plan and set up a Programme Management Office to run its cost improvement plan programme, and engaged external advisers to review the effectiveness of board governance. The existing Chair announced his intention to stand down in November 2010. The governors appointed an interim Chair in December 2010 and a substantive Chair in May 2011. The trust delivered the first year of its revised financial recovery plan in 2010/11, but needs to continue delivery in 2011/12, as well as demonstrating that it has addressed governance concerns. In May 2011, as a result of a responsive review of the trust's maternity and midwifery services - specifically looking at the care and welfare of people who use these services and staffing levels - the CQC found the trust to comply with their essential standards in these two areas.
Blackpool Teaching Hospitals NHS Foundation Trust
The trust was found in significant breach of two terms of its authorisation in November 2010: the general duty to exercise its functions effectively, efficiently and economically and its governance duty. This was as a result of the trust delivering an unplanned financial risk rating of 2 at quarter one of 2010/11, and a failure to put in place effective governance procedures to ensure that cost improvement plans were delivered. The trust has developed a recovery plan to address both financial and governance concerns and has appointed external advisers to provide assurance on board

effectiveness and high-level governance arrangements.

The trust achieved a breakeven position in 2010/11, consistent with its recovery plan, and is in the process of implementing recommendations following the external review of governance. It has a challenging cost improvement programme to deliver in 2011/12 if it is to continue to achieve a sustainable financial position.

Tameside Hospital NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in February 2011: the general duty to exercise its functions effectively, efficiently and economically and its governance duty. This was as a result of the trust delivering an unplanned financial risk rating of 2 at quarter two.

The trust has developed a recovery plan to address both financial and governance concerns. The governors have commenced the process of recruiting a replacement for the chair, who will leave the trust at the end of his current term of office.

The trust was registered by the CQC with conditions in April 2010, all of which have now been lifted. In May 2011, as a result of a planned review, CQC found one moderate and four minor concerns about how the trust was meeting essential standards of quality and safety. We are keeping in close contact with the trust and CQC to monitor progress on these issues.

The table below shows the NHS foundation trusts found in significant breach of their terms of authorisation during 2011/12 (as at 30 June 2011).

Medway NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in April 2011: the general duty to exercise its functions effectively, efficiently and economically and its governance duty. This was as a result of an unplanned financial risk rating of 2 at quarter three and concerns around board level scrutiny and assurance processes concerning financial planning and performance.

The trust is taking steps to address the issues and has commissioned external advisers to review financial planning and governance arrangements. The trust board will report to Monitor on the outcome of this review by early July 2011.

The trust was registered by the CQC with conditions in April 2010, all of which have now been lifted. During 2010/11, a number of CQC planned and responsive reviews identified both moderate and minor concerns. These concerns have since been lifted as a result of actions by the trust to address the CQC's concerns.

The table below shows the foundation trusts removed from significant breach during 2010/11
Royal National Hospital for Rheumatic Diseases NHS Foundation Trust
The trust was found in significant breach of its terms of authorisation in 2008/09 due to its failure to comply with its general duty to exercise its functions effectively, efficiently and economically. Monitor formally intervened on three occasions, twice in 2008/09 and once in April 2009, to appoint a Chief Executive to lead and manage the trust operationally and a Chair to provide strong and independent strategic leadership. The trust stabilised its financial position and developed a robust plan. It also strengthened its board and appointed a Chief Executive and Chair on a substantive basis. Having demonstrated that it had taken action to address the issues identified, Monitor removed the trust from significant breach in October 2010.
University Hospital of South Manchester NHS Foundation Trust
The trust was found in significant breach of its authorisation in July 2009 due to its failure to comply with its governance duty and its healthcare targets and other standards duty. This was due to governance concerns and its MRSA performance. Subsequently, the trust breached the 18-weeks waiting time and A&E targets. Monitor determined, with the trust, a set of challenging trajectories against which we would hold the trust board to account. The trust appointed external advisers to review board governance and, as a result, the board was restructured to bring in the necessary skills for the trust to return to and remain in compliance with its terms of authorisation. MRSA, A&E and 18-weeks target performance also came back into compliance and in June 2010, the trust was removed from significant breach as a result of the progress it had made.
Colchester Hospital University NHS Foundation Trust
The trust was found in significant breach of three terms of its authorisation in November 2009: its general duty to exercise its functions effectively, efficiently and economically, its governance duty and its healthcare targets and other standards duty. This was due to evidence of poor planning, a persistently high Hospital Standardised Mortality Ratio, poor national survey results and breaches of A&E, 18-weeks, cancer and MRSA screening targets. Monitor used its formal powers of intervention to remove the Chair and appoint an Interim Chair. The board was subsequently strengthened with the appointment of a substantive Chair and Chief Executive, four new Non Executive Directors and an enhanced executive team. The trust returned to compliance with its healthcare targets and standards and made improvements to its governance.

Having demonstrated to Monitor that it had taken action to address the issues, the trust was removed from significant breach in September 2010.

Burton Hospitals NHS Foundation Trust*

The trust was found in significant breach of three terms of its authorisation in December 2009: its general duty to exercise its functions effectively, efficiently and economically, its governance duty and its healthcare targets and other standards duty. This was as a result of governance concerns triggered by persistent breaches of the A&E target.

After the trust was found in significant breach, it worked with external advisers to improve the functioning of the A&E department and performance improved. The trust took appropriate steps to improve governance and the management of targets and, as a result, the trust was removed from significant breach in November 2010.

The Dudley Group of Hospitals NHS Foundation Trust*

The trust was found in significant breach of three terms of its authorisation in December 2009: the general duty to exercise its functions effectively, efficiently and economically, its governance duty and its healthcare targets and other standards duty. This was as a result of A&E performance failures.

After being found in significant breach, the trust achieved on-target A&E performance in each quarter, which was driven by improved systems and processes. The governors appointed a new Chair in November 2010 whose focus was to improve board governance.

As a result of evidence of sustainable improvements, the trust was removed from significant breach in December 2010.

Heart of England NHS Foundation Trust*

The trust was found in significant breach of three terms of its authorisation in January 2010: its general duty to exercise its functions effectively, efficiently and economically, its governance duty and its healthcare targets and other standards duty. This was as a result of a persistent failure to address governance concerns and the delivery of the A&E target.

After the trust was found in significant breach, it demonstrated that it had robust, externally-validated plans in place to address concerns in relation to the A&E target. In July 2010, the trust was removed from significant breach. While it had not improved against the original target of 98%, it did not fall below the new target of 95%.*

Wrightington, Wigan and Leigh NHS Foundation Trust*

The trust was found in significant breach of two terms of its authorisation in February 2010: its governance duty and its healthcare targets and other standards duty. This was

as a result of governance concerns triggered by persistent breaches of the A&E target.

After the trust was found in significant breach, its monthly board performance reports demonstrated improved metrics and key performance indicators. An externally-assured action plan was also put in place and, as a result, the trust achieved on-target A&E performance and was removed from significant breach in December 2010.

*The A&E target these trusts were being monitored against changed in July 2010, following amendments to the Department of Health's *Operating Framework* in June 2010 which saw the A&E four-hour waiting time target reduced from 98% to 95% (see page 18).

The table below shows the NHS foundation trusts that have remained in significant breach throughout 2010/11

Mid Staffordshire NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in March 2009: its general duty to exercise its functions effectively, efficiently and economically and the requirement to ensure the existence of appropriate arrangements to provide representative and comprehensive governance, and to maintain the organisational capacity necessary to deliver mandatory goods and services. This was as a result of significant failings relating to quality of care, governance and leadership within the trust.

Monitor intervened in March 2009 and appointed an Interim Chair (David Stone) and required the trust to appoint an Interim Chief Executive (Eric Morton). When Eric Morton's appointment ended in July 2009, the trust's recruitment campaign failed to recruit a permanent Chief Executive. Monitor formally intervened again in July 2009 to appoint Antony Sumara as Interim Chief Executive for a period of two years.

At the same time, the trust's board of governors appointed a substantive Chair, Sir Stephen Moss. The aim of this was to ensure that the strategic and operational leadership was in place to stabilise the trust, enabling it to address the recommendations of a report published by the Healthcare Commission in March 2009, and maintain and build on the momentum of the improvements that had already been achieved.

In March 2011, a substantive Chief Executive, Lyn Hill-Tout, was appointed who formally started in post in June 2011.

The trust was registered by the CQC with conditions in March 2010. During 2010/11, a number of CQC planned and responsive reviews identified both moderate and minor concerns. The current position is that the trust has one registration condition, two moderate concerns and ten minor concerns about how the trust is meeting essential standards of quality and safety. A responsive review was undertaken in May 2011 reviewing all 16 outcomes, the conclusions of which have not yet been published. The CQC recognises that progress has been made at the trust in delivering improved care to patients. However, both the CQC and the trust agree that there is still more work to do.

The executive team has been strengthened to accelerate further progress in both quality and finance. The trust recently has made improvements in its A&E department. Major challenges remain to ensure that changes are embedded and sustained, and the trust must improve its quality governance.

Following a strategic review of services delivered at the NHS foundation trust, a long-term plan for a clinically and financially viable solution is being produced. This will help secure the future of the trust. The plan was presented to the trust board in June 2011 and recommendations following from this will form the basis of the NHS foundation trust's plan going forward.

Heatherwood and Wexham Park Hospitals NHS Foundation Trust

The trust was found in significant breach of one of its terms of authorisation in July 2009, due to a failure to comply with its general duty to exercise its functions effectively, efficiently and economically. This was as a result of a rapid decline in its financial and operational performance. The trust board was required to submit a delivery plan, which was presented to Monitor in October 2009.

Monitor intervened at the trust in October 2009 to appoint an Interim Chair, following the previous Chair's decision to stand down, and to direct the trust to appoint an Interim Medical Director in the absence of a substantive appointee to that position. This was to ensure that the trust had the board-level leadership and capacity needed to return it to a secure position, while at the same time ensuring patient care remained the highest priority. The trust has since made a permanent appointment to the role of Medical Director.

The trust was registered by the CQC with conditions in April 2010, all of which have now been lifted.

During 2010/11 the trust developed a financial recovery plan based on improving the operational efficiency of its services. This plan required external funding to support the trust while it made long-term savings. In September 2010 the Secretary of State for Health agreed to provide £18million of short and long-terms loans. Supported by this funding, the trust delivered the planned deficit for 2010/11, with financial performance at the end of the year significantly improved on the start of the year and on 2009/10. However, this was achieved against a backdrop of higher activity than planned, which is causing challenges in the local health economy.

The trust is now working with its principal commissioner to agree activity levels for the current and future years. The trust will update its plan on this basis and Monitor will track the trust's performance until it has demonstrated a sustained recovery of its financial position.

Gloucestershire Hospitals NHS Foundation Trust

The trust was found in significant breach of two terms of its authorisation in September

2009: its general duty to exercise its functions effectively, efficiently and economically and its healthcare targets and other standards duty. This was as a result of the trust's failure to address persistent breaches of the A&E and thrombolysis targets and weak financial performance.

Throughout 2010 there was a significant deterioration in the trust's financial position. The trust appointed a new Finance Director and financial management is now strengthened.

The trust was successful in delivering its 2010/11 plan which included a small surplus and an ambitious £30 million cost improvement programme, and Monitor will assess the trust's plan for 2011/12 in its annual plan review.

Since April 2010 the trust had been achieving its A&E target but failed to meet the target in quarter four 2010/11. We continue to track progress against this key target.

In May 2011, as a result of a responsive review, the CQC found two moderate concerns and four minor concerns about how the trust was meeting essential standards of quality and safety. We are keeping in close contact with the trust and CQC to monitor progress on these issues.

Dorset County Hospital NHS Foundation Trust

The trust was found in significant breach of one of its terms of authorisation in October 2009, due to a failure to comply with its general duty to exercise its functions effectively, efficiently and economically. This was as a result of a deterioration in financial performance and operational efficiency.

Monitor intervened to appoint Jeffrey Ellwood as Interim Chair, following the resignation of the previous Chair, and to require the Members' Council to commence immediately its formal recruitment process to appoint a Chair. Jeffrey Ellwood was subsequently appointed substantive Chair.

Following our intervention, the trust developed a recovery plan that will lead to long-term financial stability. During 2010/11, the trust's financial position stabilised and it has strengthened its executive team with the appointment of a new Chief Executive and Finance Director in September 2010.

The trust performed in line with its recovery plan in 2010/11 and anticipates returning to a surplus in 2011/12.

In February 2011, as a result of a responsive review, the CQC found one moderate concern and three minor concerns about how the trust was meeting essential standards of quality and safety. We are keeping in close contact with the trust and CQC to monitor progress on these issues.

Basildon and Thurrock University Hospitals NHS Foundation Trust

The trust was found in significant breach of three terms of its authorisation in November 2009: its general duty to exercise its functions effectively, efficiently and economically, its

governance duty and its healthcare targets and other standards duty. This was as a result of a number of quality concerns including high Hospital Standardised Mortality Ratios (HSMR), persistent breaches of the Hygiene Code and the CQC's reviews of children's services and learning disability services.

Monitor intervened to require the trust to appoint a taskforce including senior clinicians, to put in place key performance indicators to demonstrate progress and to strengthen senior clinical capacity. The trust has shown improvements in all original areas of concern. There have been a number of changes to the board including the appointment of an interim chair and a new Director of Nursing. The capacity of the executive team has been strengthened with the creation of a Director of Operations role.

In April 2010, the trust was registered by the CQC with conditions, all of which have now been lifted. During 2010/11, a number of CQC planned and responsive reviews identified further concerns. The current position is that the CCQ has four moderate concerns and four minor concerns about how the trust is meeting essential standards of quality and safety. We are keeping in close contact with the trust and CQC to monitor progress on these issues.

The trust breached its private patient income cap in January 2011 and has set out the actions it will take to return to compliance.

Milton Keynes Hospital NHS Foundation Trust

The trust was found in significant breach of a term of its authorisation in March 2010: the requirement to ensure the existence of appropriate arrangements to provide representative and comprehensive governance, and to maintain the organisational capacity necessary to deliver mandatory goods and services. This was as a result of concerns relating to effective, timely and pro-active design and implementation of maternity action plans, the effectiveness of board assurance processes, and board and clinical leadership.

Monitor intervened to require the trust to appoint external expert clinical advisers to assist it in accelerating the delivery of the necessary improvements within its maternity service.

In March 2010, the trust was registered by the CQC with conditions. In April 2011 the CQC lifted all registration conditions on the trust's maternity services, following evidence submitted from the trust, and the trust is now fully compliant in this area. All other CQC conditions have now been lifted.

Following a responsive review in January 2011, the CQC issued three urgent compliance actions outside of maternity services, to which the trust has responded with action plans. The CQC will undertake another unannounced visit in the coming months to determine whether the trust is now compliant. We are keeping in close contact with the trust and CQC to monitor progress on these issues.

During 2010/11, the trust's finances significantly deteriorated and it now has a financial

risk rating of 1. The focus of Monitor's regulatory action is now on the trust's financial position, quality governance and addressing all CQC issues.

The trust has strengthened its board and appointed a new Chair and Finance Director, an interim Chief Executive and interim Chief Restructuring Officer, and an acting Chief Operating Officer. It developed a recovery plan which includes challenging cost improvement plans for 2011/12 and 2012/13 and it has set up a Programme Office to assist delivery of these plans. Following Monitor finding the trust in significant breach, the trust also brought in external advisers to assess its board governance and is implementing the recommendations from this assessment.

Preparing for future risk

A key focus of our work in 2010/11 was to ensure that both NHS foundation trusts and Monitor are better sighted on future risk. To achieve this, in 2009/10 we revised our annual plan review process, when we require foundation trusts to prepare a three-year strategic and financial plan and to provide us with board certifications on financial performance and governance.

The trusts submitted their plans in May 2010. All plans were subject to a stage one review, a two-day desk top analysis completed by Monitor's compliance team. Following this, where weaknesses were identified in a trust's planning process, or where concerns were raised over financial stability or governance, trusts were subject to a stage two review. This was a more in-depth assessment of whether the underlying risks were significant to their terms of authorisation. This second stage of the annual plan review also means that we are more aware of risks in trusts which have not already required additional regulatory oversight. We then met those trusts identified as high or medium risk, to ensure the trust board was focused on risks facing the organisation and had plans in place to mitigate them.

Our review of the plans identified an increase in financial risk across the whole NHS foundation trust sector, reflecting the tougher economic conditions trusts are operating in. Other themes identified included:

- a projected decline in future income over the three-year plan period;
- the need to deliver challenging cost improvement plans (average of 4.4%, highest at 7.7%), which were more demanding than in previous years (3% achieved in 2009/10);
- an increase in potential acquisition activity, largely driven by primary care trusts disposing of their provider functions; and
- challenges associated with meeting the cancer service performance targets for acute and specialist trusts.

Our revised approach to the annual plan review process encouraged trusts to put greater focus on strategic planning to ensure they identified potential challenges to both the quality of care they provide and their financial performance. For Monitor, the refinements to the process meant an improved awareness of risks in trusts which were not already on our radar (trusts that were already in significant breach of their terms of authorisation, or those where action plans were being developed to address issues, were not selected for a stage two review). If regulatory action was later required at a trust which had been reviewed at stage two, we had a significant knowledge base to build on in order to take prompt and effective action.

Working together to align processes

During the past year, we have continued to work closely with the CQC to enhance our understanding of NHS foundation trusts' performance on quality and concerns related to their terms of authorisation.

From April 2010 all health and adult social care providers who provide regulated services were required to register with the CQC. Twelve foundation trusts were registered with conditions, which meant that the CQC had concerns that these organisations were not meeting essential standards of care. We made clear to those trusts their responsibility to return to compliance with their registration and reflected this in our own regulatory risk ratings, keeping in regular contact with those trusts and the CQC to review their progress. Eleven of the 12 foundation trusts have had their conditions lifted. Mid Staffordshire NHS Foundation Trust still has one registration condition (see page 25 for further details).

We speak on at least a weekly basis with the CQC to discuss urgent issues of concern relating to trusts' compliance with either their terms of authorisation or CQC registration. We also work closely with the CQC when it carries out a responsive review at an NHS foundation trust. This takes place when concerns are raised over compliance with the essential standards of quality and safety. We will take account of the governance risk this review reflects and adjust the risk rating for the trust accordingly. Once the review is complete, our regulatory action will be based on the outcome. More detail on our approach is set out in the *Compliance Framework 2011/12*.

To reflect these operational practices, in October 2010 we revised our memorandum of understanding with the CQC to set out in more detail how we work together when concerns emerge about an NHS foundation trust and how we ensure joined up regulation. We updated the memorandum again in May 2011 to ensure it was up to date.

Risk rating significant community services transactions

As part of the Government's drive to provide more choice for patients closer to home, all primary care trusts were required to separate their commissioning and provider functions

by April 2011. The provision of community services is being transferred to existing providers or undertaken by a range of new organisations such as social enterprises.

With their freedom to make investments that benefit patients, many NHS foundation trusts are choosing to take on the provision of community services. Such a transaction can have a major impact on an NHS foundation trust's operating and risk profiles. In significant transactions, where community services represent more than a quarter of the foundation trust's income, we assess the potential risk of the acquisition on the trust's finances and governance. We do not have a role in approving these transactions, but we consider their impact on foundation trusts' risk ratings and issue indicative regulatory risk ratings. The board of the NHS foundation trust then decides whether or not to approve the acquisition, taking Monitor's risk evaluation into account.

This has meant a significant programme of work for Monitor, with 31 significant transactions (some of which were multiple transactions by a single foundation trust) being referred to us in 2010/11 and early 2011/12. The process for assessing the risk of significant transactions, and issuing an indicative risk rating to the foundation trust, takes between two to three months, depending on the complexity of the transaction involved. To accommodate this substantial additional workload, we almost doubled the capacity of our assessment team, on a temporary basis. By the end of March 2011, we had issued 13 indicative risk ratings, with a further 14 due to be completed by July. In a number of cases we had to delay beginning our risk rating process, as the trusts were not ready for assessment, and we were also constrained in the number of transactions we could review at any one time.

Performance against 2010/11 business plan objectives: operating a proportionate, risk-based regulatory regime

Themes	Actions	Outcome
Continue to develop and update the *Compliance Framework* and other regulatory documentation to enable us to identify risk and take action on a timely and effective basis.	Publish an amended *Compliance Framework* to reflect a changing regulatory, economic and care quality environment.	**Action completed** *Compliance Framework 2011/12* published March 2011, following 12-week consultation.
	Reflect the results of Monitor's economic impact assessments in the evolution of the framework.	**Action not completed** Monitor's Policy team made a significant contribution to Department of Health's Economic Regulator Unit during 2010/11. As a consequence, no impact assessments completed.
	Review and update other compliance documentation and publications to ensure a comprehensive, relevant and effective regulatory approach. In particular, reflect key lessons and our responsibilities in relation to those of primary care trusts, strategic health authorities and the CQC.	**Action completed** Documentation updated, including: • annual plan review material; • *NHS Foundation Trust Annual Reporting Manual 2010/11;* • *Key Learnings from Regulatory Action in 2010;* • *Update on Progress Following the Internal Audit Report 'Learnings and Implications from Mid Staffordshire NHS Foundation Trust';* • revised guidance on external assurance on quality reports; • memorandum of understanding with the CQC; and • revised *Audit Code for NHS Foundation Trusts.*
	Consider how to reflect the new *Quality Governance Framework* developed for our assessment function in our compliance activities.	**Action completed** Following consultation, incorporated in *Compliance Framework 2011/12* and *NHS Foundation Trust Annual Reporting Manual 2010/11.*
	Consult on and implement the criteria by which an NHS foundation trust may be subject to de-authorisation.	**Action partially completed** As required by the Health Act 2009, we consulted in May 2010 on criteria for de-authorisation. No further action was taken due to a new failure regime being considered as part of the healthcare reforms.
	Implement any necessary changes to our processes and documentation in relation to the recent private	**Action completed** Published updated rules in February 2010, incorporating these into *NHS Foundation Trust Annual Reporting*

	patient income cap judgment.	*Manual 2010/11*.
	Provide advice on regulatory framework/public law considerations to ensure all documentation is legally compliant.	**Action completed**
Continue to develop the compliance team structures and people to deliver Monitor's compliance objectives and in particular to identify and then act upon compliance risks.	Continue to recruit and retain high quality people with relevant skills and clear accountabilities.	**Action completed**
	Develop team structures, building relevant skills and capacity to support a flexible, scalable and consistent approach to compliance activities.	**Action completed** • Revised project management approach implemented. • New internal governance structures introduced. • Workforce capacity model developed.
	Continue to identify and implement operational efficiencies, supported where possible by technology, data and the Knowledge and Information Management team at Monitor.	**Action completed** • Introduced template letters and updated escalation manual. • Defined new platform for improving management of trust documentation (to be implemented in August 2011).
Access external advice, expertise, information and data to support the identification of risk and effective compliance action.	Build on and develop current networks of external advisers in key governance and clinical areas.	**Action completed** • We will always go to appropriate advisers, including the CQC on quality issues (reflecting our memorandum of understanding). • Monitor has developed network of advisers on board governance.
	Continue to strengthen our network of financial and turnaround advisers, to advise on development and support of financial and strategic recovery plans.	**Action completed**
	Build and maintain network of high quality interim healthcare leaders for appointment where intervention action is necessary.	**Action completed** Network established during 2009/10; regional network meetings held during 2010/11.
	Develop and implement agreed knowledge management strategy to access, capture and share high quality and reliable information to support compliance activities.	**Action completed** • Three-year knowledge management strategy approved in April 2010. • During 2010/11, change in phasing of strategy meant compliance phase was

		postponed to 2011/12.
Review and update escalation and intervention procedures.	Introduce and operate an integrated approach between key teams (Communications, Legal and Compliance) to oversee and deliver project management of potential and actual interventions.	**Action completed**
	Ensure the provision of appropriate legal support and advice on escalations and interventions, to ensure compliance by Monitor with public law and regulatory obligations.	**Action completed**
Support effective strategic planning by NHS foundation trusts to enable them to identify and take actions to mitigate risks.	Develop and publish updated annual plan templates and pro-formas to support more effective strategic planning and to identify potential compliance risks.	**Action completed** See page 29.
	Review plans in order to assess financial and governance risk and plan quality.	**Action completed** See page 29.
	Where there are apparent weaknesses in the planning processes, or where plans demonstrate significant risks to the terms of authorisation, to engage with trusts in order to understand the implications of this in more detail before finalising risk ratings for the trusts in question.	**Action completed** See page 29.
	Ensure our communications reflect the impact of the economic challenges for the NHS foundation trust sector.	**Action completed** Range of projects delivered including event for foundation trust leaders in July 2010, presentations to wide range of stakeholders, and briefing material for foundation trusts and media.
Build an effective working relationship with key stakeholders to support compliance activities –	Implement operational aspects of the memorandum of understanding and the working practices agreed with CQC, including regular communication of actual or potential risks to the terms of authorisation or registration, sharing of relevant information and co ordination of regulatory activity.	**Action completed** Ongoing implementation of working practices in memorandum.

including the CQC, primary care trusts, strategic health authorities, other regulators and, where appropriate, governors.	Work with strategic health authorities and commissioners to identify risks to the terms of authorisation of NHS foundation trusts.	**Action amended** If a trust is escalated for significant breach of its terms of authorisation, we will work with the strategic health authority and commissioners where appropriate**.**
	Develop and deliver a programme of communications to primary care trusts, to build on the work completed to date, and to ensure they are aware of our role, and how and when to contact us.	**Action completed** We continue to communicate with primary care trusts on regular basis.
	Develop a strategic health authority communications and engagement plan.	**Action amended** We continue to communicate with strategic health authorities on regular basis but assessed that plan for additional activity was not needed.
	Participate in joint working groups with other regulators to support better regulation approach, alignment and reduction of duplication.	**Action completed** • Regular strategic and operational meetings with CQC. • Meetings with other regulators as required.
	Develop effective working relationships with lawyers in the Department of Health, CQC and other regulatory bodies as appropriate.	**Action completed**
Review on a periodic basis, and seek to minimise any unintended disincentives in the regulatory regime.	Review the foundation trust capital regime for possible disincentives in corporate development.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Ensure that Monitor's regulatory approach to investment and merger and acquisition activity is understood and does not inhibit beneficial corporate actions or innovation, taking account of risk.	**Action completed** • *Transforming Community Services: Transactions Guidance for NHS Foundation Trusts* published in September 2010. • Regular updates on our approach provided in FT bulletin and by presentations to key stakeholders.
Develop Monitor's role in implementing leading national initiatives within	Work with the Department of Health and the Co-operation and Competition Panel to address potential competition issues within the NHS foundation trust sector.	**Action completed** See page 47.

the NHS foundation trust sector including competition policy and the NHS Constitution.	Work more closely, as appropriate, with the Department of Health, HM Treasury and others, to develop initiatives which are relevant to regulatory compliance (for example, the Operating Framework, Payment by Results, etc).	**Action completed**
	Support the development and the adoption by foundation trusts of the NHS Constitution and other corporate social responsibility priorities.	**Action completed** • A requirement to have regard to the NHS Constitution was incorporated into NHS foundation trusts' terms of authorisation. • Following consultation, the *NHS Foundation Trust Annual Reporting Manual 2010/11* sets out that foundation trusts should have discretion whether to include sections on sustainability, equality and diversity and NHS Constitution in their annual report.
Develop annual reporting for NHS foundation trusts	Update and publish the *NHS Foundation Trust Annual Reporting Manual 2010/11*, continuing to enhance the reporting requirements on quality, sustainability/climate change, and equality and diversity.	**Action completed** See bullet above. The manual was also updated to reflect Monitor's *Quality Governance Framework*.
Assess major transactions and transactions with major risks.	Review and update, where appropriate, Monitor guidance, including *Applying for a Merger involving an NHS Foundation Trust – Guide for Applicants.* Refine our due diligence process and assess appropriate major investments, mergers, acquisitions and divestments and other transactions with major risks in line with guidance.	**Action completed** • Process for risk-assessing significant transactions reviewed and updated to accommodate significant number of Transforming Community Services transactions; guidance published in September 2010. • The Health and Social Care Bill contains draft clauses relating to mergers of NHS foundation trusts. In light of this, and given that: no applications for mergers have yet been referred to Monitor since merger guide published in 2006; no mergers expected to be referred to us in immediate future; and likely limited timescales for applicability of new guide, we will not be updating merger guidance

		at present.
	Ensure legal oversight of transactions process to ensure clarity and compliance with Monitor's mandatory guidance.	**Action completed**
Develop a restructuring support function.	Establish a small team to support the development of restructuring options for financially challenged trusts, in particular those in which Monitor has intervened.	**Action completed** Capacity developed within assessment team.

Promoting the development of well-led NHS foundation trusts

For an NHS foundation trust to succeed, strong leadership at the top of the organisation is essential. The board sets the direction, culture and strategy of a foundation trust and is accountable for performance.

Our assessment and regulatory work has given us significant insight into the development needs of foundation trust boards and we use this experience to support development programmes across the sector. Our role is to work with partners to stimulate the development of training and tools to strengthen the capabilities of NHS foundation trust boards of directors, boards of governors and senior management teams.

A year of change

The past year has seen a great deal of change and uncertainty in terms of policy development. We have had a new coalition Government, a health reform bill, significant public spending pressures and severe restrictions on arm's-length bodies' expenditure on external advisers, recruitment and communications activities. This has affected how we have been able to deliver against specific actions within two of our strategy areas:

- promoting the development of well-led NHS foundation trusts; and
- contributing to and influencing the development of an affordable, devolved system of healthcare provision.

Before the spending restrictions were introduced, we would use our knowledge of the development needs of NHS foundation trust boards, and our specialist expertise in areas such as quality accounts, to support development activities (for example, reports, training or events). We would commission a partner organisation to work with, contribute funding and help develop content. However, the spending restrictions have adversely affected this business model. There have been challenges in finding partner organisations to work with, given the spending controls they also face, and we have been unable to fund projects ourselves.

However, we have continued to look for partners who have funding available to take forward policy development activities and run programmes and events. This has resulted in some successful projects, including a course for foundation trust chairs and a conference for over 500 senior clinicians and managers on value in healthcare. Where our activities have been curtailed by spending restrictions, this is noted in the tables which show our performance against objectives (pages 42 - 44).

Supporting the effectiveness of key board roles

During 2010/11, we worked with the Foundation Trust Network to develop a programme specifically for chairs of foundation trusts and aspirant foundation trusts. Cass Business School was commissioned to develop this course, with the aim of creating a programme which caters for chairs of all backgrounds:

- a learning programme of value to chairs who are new to foundation trusts or new to the NHS (or who would like a refresher of their knowledge/skills), to further their understanding of the NHS and of foundation trusts, and to help them in their role; and

- a flexible and high level master-class and discussion-based programme which aims to bring together foundation trust chairs with others in both the wider public and commercial sectors, thus also catering for chairs with considerable experience both within and outside the NHS.

Several foundation trust chairs were involved in scoping these programmes, which will be launched later in 2011.

The programmes complement existing courses Monitor has helped design for non-executive directors and finance directors, working closely with partner organisations. We continue to refresh and help develop material for these courses, to ensure they remain relevant.

Promoting value in healthcare

In partnership with UCL Partners, we ran a conference in January 2011 which focused on the importance of value in healthcare, with value being defined as the quality of care delivered for every pound spent.

Inspiring change

Monitor joined forces with Europe's largest academic health science partnership, UCL Partners, to hold a conference for over 500 senior clinicians and managers on value in healthcare. The aim was to inspire delegates by providing engaging presentations and workshops on how they could provide the best quality care from the resources available. There was an important emphasis on practicality, with master classes on a range of topics to provide support to people and organisations – we wanted delegates to be motivated to take action on what they had heard. A follow-up leadership workshop took place in June 2011.

The programme of speakers at the conference offered perspectives and experiences from the UK and abroad, from primary and secondary care leaders, health improvement academics and policy makers. Highlights included a keynote address from Secretary of State for Health Andrew Lansley and a presentation from Professor Michael Porter of Harvard Business School, on global perspectives on value in healthcare.

Kate Hall, Policy Adviser at Monitor, managed Monitor's input into the conference: "Feedback from delegates has shown that the conference inspired many of them to take action on what they heard, and they have started to work on using the ideas in their own organisations and services."

Kate gained input on the conference programme from Monitor's Medical Advisory Group, a group of eight current or former NHS foundation trust medical directors who advise Monitor's Board on supporting foundation trusts to manage quality effectively. David Fish, Managing Director at UCL Partners, is a member of the Medical Advisory Group: "Delivery on value is central to the ability of the NHS to meet the financial challenge without compromising quality. 'Value' brings together in one conversation quality and cost, and puts patients' needs at the heart of how services are organised and run. By focusing on value we can truly focus on patients. UCL Partners was delighted to be working with Monitor on this crucial topic, and these events were important milestones towards building a movement across the NHS."

The follow-up workshop brought together over 90 clinical and other leaders from across the NHS, and was led by Professor Michael Porter and Professor Tom Lee (CEO of Partners' Community Healthcare and Professor of Medicine at Harvard Business School). The aim of the event was to focus on the practical, strategic and organisational challenges and opportunities which the NHS faces in a time of increasing demand, rising expectations and flat funding.

We remain committed to service-line management, a concept we have helped develop for NHS foundation trusts. This approach identifies areas of service or clinical care and suggests how best to manage them as distinct operational units, with leadership involving senior clinicians. It enables foundation trusts to understand their performance (on both quality and cost) and organise their services in ways which benefit patients and deliver efficiencies for the trust. During 2010/11, we developed a framework which sets out the different levels of maturity in implementing service-line management. We launched this in May 2011 at a joint event with the Healthcare Finance Managers' Association, alongside a self-assessment tool organisations can use to measure progress against the framework.

In our 2010/11 business plan, we set an action to promote the establishment of an NHS Business Academy to support senior clinicians in developing the business and management skills to lead service-lines. We have been unable to progress this ourselves during the year due to spending restrictions. However, we still believe there is a significant demand for a programme to support the development of the corporate role of NHS foundation trust medical directors, and we will continue to look for partners who might help us progress this in the future.

Supporting accountability

Local accountability is a fundamental part of the NHS foundation trust model and governors make a vital contribution by appointing the majority of the board of directors and holding them to account. In 2009/10, we published *Your Statutory Duties: A Reference Guide for NHS Foundation Trust Governors*. The aim of this was to help governors better understand their role and carry out their statutory responsibilities more effectively.

In December 2010, following a pilot exercise, we launched a survey of governors to establish how effective and confident they feel they are in their roles. We received over 1,600 responses and the results were summarised in a report (with anonymised data) which was made available to all trusts in July 2011. We will make further use of the survey results in 2011/12, working with the Department of Health and other partners to develop programmes to support boards of governors.

We have also been involved in a range of other events for governors held by partner organisations, including attending and speaking at national development days held by the Foundation Trust Governors' Association.

The Health and Social Care Bill sets out a greater role for governors in the future where they must take over, from Monitor, the role of oversight and holding the board of directors to account. We will work with the Department of Health to establish how governors can be supported in providing the appropriate level of oversight and challenge to foundation trusts.

It is the members of NHS foundation trusts who elect non-appointed governors, and stand for election to the board of governors themselves, providing a vital link to the local community the trust serves. During 2010/11, Monitor, the Foundation Trust Network, Electoral Reform Services, and Membership Engagement Services carried out a research project into the current approach to recruiting and engaging members, and good practice in these areas. A report on the survey was published in July 2011.

Performance against 2010/11 business plan objectives: promoting the development of well-led NHS foundation trusts

Themes	Actions	Outcome
Support boards of directors to lead improvements in quality and efficiency.	Scope and design a programme for NHS foundation trust chairs to help them understand and exercise their role.	**In progress** See page 38.
	Working with others, scope, design and pilot a training programme for medical directors to support them to exercise their role on the board of directors.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Continue to run projects to help boards improve their effectiveness in leading quality improvement.	**Action partially completed** • Held joint event with UCL Partners on value in healthcare and the importance of clinical leadership. • Implemented our approach to quality governance. • Other planned projects not progressed in line with spending controls across all arm's-length bodies.
	Explore opportunities to promote productivity (i.e. better quality at lower cost) in the NHS foundation trust sector. Scope and design new modules for productivity improvement, as appropriate.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Support boards of directors to understand competition policy and implications of decisions taken on competition matters.	**Action partially completed** Held senior policy discussion, in partnership with Nuffield Trust, on market mechanisms to improve efficiency and quality.
	Develop and agree a marketing and communications plan for NHS foundation trust board development initiatives: • work with FTN, where appropriate; and • work with medical workforce representatives.	**Action not completed** • Impacted by spending restrictions on policy projects outlined above. • *Role of Boards in Improving Patient Safety* published.
	Develop better understanding of Monitor's role and activities for	**Action completed** Held joint event with UCL Partners

	senior clinicians in NHS foundation trusts, supported by the Medical Advisory Group.	on value in healthcare and importance of clinical leadership.
Develop the model for service-line management and promote its adoption across the NHS.	Complete the balanced scorecard for service-line managers by developing metrics for quality, including patient safety, and for staff retention and other effective human resource management indicators.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Promote the establishment of an NHS Business Academy to support clinicians to develop the business skills to lead service-lines.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Focus communications activities on promoting the benefits of service-line management (SLM) to boards and clinicians, to encourage widespread adoption of the approach.	**Action partially completed** • Promoted benefits of SLM at wide range of conferences and events. • Further work curtailed by spending restrictions on policy projects outlined above.
Help governors to understand their role and how to exercise their statutory responsibilities and NHS foundation trusts to engage with their membership	Design and conduct a survey of governors to assess progress on how effective they are in exercising their role.	**Action completed** See page 41.
	Encourage third parties to develop support programmes for governors to better understand and exercise their role.	**Action completed** • Spoke at Foundation Trust Governors' Association (FTGA) events. • Supported Governors' Development Programme, run by the Foundation Trust Network and FTGA. • Hosted regular Governor Support Group meetings with representatives from Care Quality Commission, Foundation Trust Network and FTGA.
	Scope a project to understand best practice amongst NHS foundation trusts in building membership numbers and engaging with members.	**Action completed** See page 41.
	Develop a communications plan to help governors to understand their role and how to exercise their	**Action partially completed** Communications plan not developed but we continue to communicate with governors. For example, we

	statutory responsibilities.	developed a welcome pack for governors at new foundation trusts, and communicated with lead governors in trusts in significant breach of their terms of authorisation.
Develop a programme of economic analysis to assess the impact of NHS foundation trust policy.	The focus in 2010/11 will be on service-line management.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.

Contributing to and influencing the development of an affordable, devolved system of healthcare provision

Our vision for healthcare in England is an affordable, devolved system in which patients and service users receive excellent care and taxpayers achieve value for money. This should be achieved through autonomous, well-led, financially robust providers responding to commissioners' requirements and the choices of patients and service users.

Working with our partners, we contribute significantly to the development of such a system through our own regulatory policies and our contribution to policy development. Alongside this, our focus is to ensure that the system provides effective incentives for providers to improve the quality of care they deliver, while improving efficiency.

An evolving system

During 2010/11 the Government announced its long term vision for the NHS. *Equity and Excellence: Liberating the NHS* set out a vision of a devolved system of healthcare where there is more choice and control for patients, an increased focus on clinical outcomes and greater empowerment for health professionals.

As part of the proposed reforms, which developed further following the Government's listening pause, it is proposed that our primary duty will be to protect and promote the interests of people who use healthcare services by promoting value for money and quality in the provision of services. We will also have a role in enabling the integration of services where this would improve quality of care or improve efficiency, and supporting the continuity of vital services in the event of failure. Working with the NHS Commissioning Board, we will set and regulate prices.

We support the Government's plans to continue the reforms to the NHS including its proposals for Monitor's new role. We believe it is valuable to have a regulator which is independent of direct political influence, accountable to Parliament, can build specialist skills and ensures that there is transparency over its actions.

During the year we contributed to the development of the planned health reforms. We responded to the Government's White Paper consultation and made a significant contribution to the work of the Department of Health's Economic Regulator Unit.

These broader policy developments have taken place against the backdrop of the Government's arm's-length body review. The latest phase of this review is assessing which business services (for example, payroll services) could be shared across arm's-length bodies and we are participating in these discussions.

Promoting quality

Quality has remained a central focus of our work during the past year. Our revised approach to assessing quality governance in applicant trusts became operational during 2010/11 (see page 12). We also consulted on developing our approach to quality governance within our regulatory framework (see page 19). We provided briefing material and made presentations on the framework and this activity will carry on into 2011/12.

During 2010/11, we have continued to be an active partner in the National Quality Board (NQB), a multi-stakeholder board established by the Department of Health to champion quality and ensure alignment across the NHS.

In March 2011, the NQB revisited its report *Review of Early Warning Systems in the NHS*, to understand the effect of the current reform programme on its previous findings. Building on the earlier review, the NQB published *Maintaining and Improving Quality During the Transition: Safety, Effectiveness, Experience* in March 2011. Focusing on 2011/12, it describes the key roles and responsibilities for maintaining and improving quality; suggests practical steps to safeguard quality during the transition; and emphasises the importance of the effective handover of knowledge and intelligence on quality between current and future organisations. Later in the year, the NQB will publish a second report setting out its view on how quality will be incorporated into the new system architecture.

Alongside this report, the NQB also published *Quality Governance in the NHS – a Guide for Provider Boards*. Building on Monitor's approach to quality governance, this tool aims to provide clarity on what good governance for quality looks like, and acts as a route map to support provider boards as they navigate the system and lead their organisation in delivering improved quality and outcomes.

In July 2010, we contributed to the final report from the NQB regarding information on the quality of information of services. The report provides recommendations to improve how information is created, used and communicated, and advice on how the information system itself should be structured.

In 2009/10, we piloted a requirement for NHS foundation trusts to produce quality reports a year ahead of the national requirement (in co-operation with NHS East of England for non-foundation trust providers). Now quality accounts and reports represent an important part of the overall quality improvement framework for the NHS. We continue to work with the Department of Health in further developing quality accounts.

During 2010 Monitor required a test run of external assurance of some aspects of the 2009/10 quality reports. We reviewed sample reports, obtained feedback from foundation trusts through questionnaires and workshops and also sought feedback from assurance providers. Following feedback and consultation, we updated our approach,

publishing this on 31 March 2011 in *Detailed Guidance for External Assurance on Quality Reports*. In summary, we are requiring for the year ended 31 March 2011:

- a limited assurance report on the content of the quality report which will be published in foundation trusts' annual reports; and
- a separate governors' report - prepared by the foundation trust's auditors - covering external assurance on two mandated and one locally selected indicator for all foundation trusts.

Competition

We have continued to work with the Department of Health and the Co-operation and Competition Panel (CCP) to develop competition policy. In 2010, the Department of Health reviewed the *Principles and Rules for Cooperation and Competition* (which govern competition in the health sector) to improve clarity and ensure consistency with Government policy for the NHS. This included establishing the principle that patients should have a choice of any willing provider. We consulted on these revised rules in August 2010 and they took effect for NHS foundation trusts from 1 October 2010.

The CCP advises on the application of the rules and, during 2010/11, the panel advised us on 19 cases. Most of these related to mergers and acquisitions associated with foundation trusts taking on primary care trusts' provider functions. It is Monitor's responsibility to take any necessary enforcement action involving foundation trusts.

In December 2010, Monitor and the Department of Health asked the CCP to conduct a sector review into the operation of the 'any willing provider' model of choice in elective NHS services, in the context of the *Principles and Rules for Cooperation and Competition*. The CCP, Department of Health and Monitor have received informal complaints and concerns from a number of providers – both NHS and independent sector - regarding alleged behaviour which is inconsistent with national Government policy on free choice of elective care and key provisions of the *Principles and Rules for Cooperation and Competition*. The CCP published an initial assessment in February 2011. It identified problems in transferring independent sector providers of NHS-funded care to primary care trust-based contracts and broader concerns that a significant number of primary care trusts were engaging in behaviours that could raise issues of consistency with the *Principles and Rules for Cooperation and Competition*. A final report is expected in the summer of 2011.

The Government's response to the listening pause describes Monitor's core duty as protecting and promoting patients' interests, not promoting competition as though it were an end in itself. The existing rules on co-operation and competition in the NHS will remain and there will be additional safeguards against cherry-picking and price competition.

An all-foundation trust sector

By 1 July 2011, there were 137 NHS foundation trusts, including the first two ambulance trusts. The Government strongly expects that the majority of remaining NHS trusts will be authorised as NHS foundation trusts by April 2014. This supports our vision of an affordable, devolved healthcare system.

We have worked with the Department of Health to establish how this expectation will be achieved, helping it to consider how best to analyse the problem and develop solutions, especially for those trusts with significant issues around their financial viability and governance. We will continue to offer support on this project, whilst continuing to maintain the high standards we require for an applicant to become a foundation trust.

Lessons learned from Mid Staffordshire NHS Foundation Trust

In our annual report for 2009/10 we reported on how we had focused on learning from the unacceptable failings in care at Mid Staffordshire NHS Foundation Trust. We commissioned our internal auditors to conduct a lessons learned exercise and published the audit report, and our response, in September 2009. The report made 14 recommendations, all of which Monitor's Board accepted. At the same time, the Board established a Steering Committee to oversee the delivery of agreed actions to meet each of the recommendations.

In August 2010, we published a report which set out our progress on each of the 14 recommendations, alongside an updated report from the auditors giving their independent view on progress. They concluded that:

- 11 recommendations had been either fully or largely implemented;
- three recommendations would take longer to implement due to their nature: these were matters such as knowledge management and the continuing development of assurance over quality accounts, which inherently have long development timescales; and
- in each case, they were satisfied with the state of progress and the quality of the solutions being proposed.

We are committed to taking forward any further learning points from the ongoing Public Inquiry into the role of the commissioning, supervisory and regulatory bodies in the monitoring of the trust. We have given the inquiry our full assistance and very significant focus during the past twelve months. When the inquiry reports its findings we will study these carefully and, where there are new lessons to learn, we will act on these, working closely with the CQC where appropriate.

Dealing with complaints

In March 2011, we published an updated complaints policy, describing how we help patients and service users to direct their complaint about an NHS provider to the correct

organisation. Monitor is not part of the NHS complaints process, and it is up to individual foundation trusts and other providers to manage complaints and we do not get involved in this. Nevertheless, we want to ensure that complainants do not get 'lost in the system'. We therefore forward any complaints we receive direct to the relevant trust or to the Ombudsman as appropriate.

However, we recognise that, more broadly, the current systems for capturing complaints information require significant improvement. We are committed to playing our part in the development of more meaningful NHS complaints information, which can be used to help drive improvement in healthcare and strengthen the quality of services for patients and the public. In March 2011, we signed a statement reflecting this commitment, alongside seven other organisations including the CQC, Department of Health and the Health Service Ombudsman.

Performance against 2010/11 business plan objectives: contributing to and influencing the development of an affordable, devolved system of healthcare provision

Themes	Actions	Outcome
Maintain strong strategic relationships with stakeholders.	Build and maintain strong strategic relationships with the Department of Health, NHS leadership, No.10, CQC and other major stakeholders.	**Action completed**
Contribute to and influence policy development, and assess its implications for NHS foundation trusts.	Contribute to the development of a coherent quality framework through our work with the National Quality Board.	**Action completed** See page 46.
	Continue to support the development of effective economic regulation by: • contributing to the review of the *Principles and Rules for Cooperation and Competition*; • making the case for a more reliable, independent tariff setting process; and • making the case for a more efficient, transparent allocation of capital.	**Action partially completed** • Consulted on adopting the new version of the *Principles and Rules for Cooperation and Competition* for NHS foundation trusts. • The Government is proposing to move to independent price setting. • Action on allocation of capital not completed as a result of spending controls across all arm's-length bodies. • In December 2010, Monitor and the Department of Health asked the Co-operation and Competition Panel to conduct a sector review into operation of 'any willing provider' model of choice in elective NHS services (see page 47). • We contributed to Department of Health consultations linked to the Health and Social Care Bill 2011.
	Consider the implications for foundation trusts of the need for more integrated care for patients with long-term conditions, in line with Lord Darzi's report *High Quality Care for All*.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Contribute to the discussion on responses to new tariff rules and	**Action completed** Participated in tariff reference

	other payment changes.	groups.
	Consider the implications for foundation trusts of a greater proportion of trust income being dependent on quality, patient experience and satisfaction with services.	**Action not completed** In line with spending controls across all arm's-length bodies, we did not carry out this work.
	Contribute to the arm's-length body review.	**Action completed**
	Ensure access to relevant and specialist legal advice, for example, on competition law matters, as required to support policy development and regulatory decisions.	**Action completed**
Work in partnership with the Department of Health and the CQC to set the policies for regulating the healthcare system.	Work with the CQC to ensure that our regulatory operations processes are aligned and consistent. Update the memorandum of understanding between our organisations, once the process for registration and in-year performance monitoring is embedded.	**Action completed** Reviewed and updated memorandum of understanding with the CQC in October 2010 and May 2011.
	Continue to maintain strong working relationships with the Department of Health, NHS leadership, HM Treasury, No.10, the Co-operation and Competition Panel and strategic health authorities.	**Action completed**
	Continue to work with the Department of Health to ensure the *Compliance Framework*, National Standard Contract and the NHS Operating Framework are properly aligned to support the delivery of the Government's national priorities within the context of NHS foundation trust autonomies.	**Action completed**
Communicate with key stakeholders to ensure that they understand Monitor's role and its	Develop and implement a new communications strategy for internal and external stakeholders for 2010/11: • Plan and ensure delivery of Monitor's influencing strategy,	**Actions partially completed** All actions completed except that, during the year, concluded that plan for additional communications activity for strategic health authorities was not needed. Continue to communicate with

contribution.	working with key stakeholders and supporting the Chair, Chief Executive and Senior Management Team; • Develop shared communications with the CQC to be clear about our roles and how the regulatory system works. • Develop and deliver a programme of communications to primary care trusts, to build on the work completed to date, and to ensure they are aware of our role, and how and when to contact us. • Develop a strategic health authority communications and engagement plan. • Undertake stakeholder research and media analysis to assess perceptions and track progress.	strategic health authorities on a regular basis.
	Establish an effective working relationship with any new health ministers and their health team post the general election.	**Action completed**
Continue to develop parliamentarians' understanding of NHS foundation trusts' autonomies and Monitor's role.	Build awareness and understanding of the role of Monitor among MPs (in England) and improve MPs' understanding of the accountability structure and regulatory framework in the devolved NHS.	**Action partially completed** Engaged regularly with MPs, researchers and Parliamentary groups in variety of ways. This work is ongoing.
	Ensure Monitor's role is clear to incoming members of Parliament.	**Action partially completed** Engaged regularly with MPs, researchers and Parliamentary groups in variety of ways. This work is ongoing.
	Ensure MPs with NHS foundation trusts in, or adjacent to, their constituencies understand when to contact Monitor and have an enhanced understanding of the organisation's role.	**Action completed** • MPs contacted about quarterly performance of foundation trusts in their constituencies, and when Monitor takes any regulatory action at those trusts. • New process introduced to contact relevent MPs during Monitor assessment phase.
	Position Monitor as an influential contributor to debates on the delivery	**Action completed**

	of health services.	• Held event with UCL Partners on value in healthcare and importance of clinical leadership. • Undertook speaking engagements. • Commented in media. • Met policy makers.

Continuing to improve as a high performing organisation

Monitor aims to be a high-performing organisation, and has a reputation for being professional, rigorous and focused. We are committed to recruiting excellent staff and to managing our resources in the most effective and efficient way to support our organisational goals.

The past year has been characterised by a change in leadership at the top of the organisation, work around our proposed new role, the adoption of our culture, values and behaviours framework, and a focus on business as usual.

Changing leadership

2010/11 saw significant leadership change within Monitor. Monitor was initially established in 2004 with an Executive Chair, Dr William Moyes. Following Dr Moyes' departure in January 2010, the leadership of the organisation was split to incorporate the separate posts of Chief Executive and Chair. Steve Bundred was appointed as Chair from May 2010, and Dr David Bennett was appointed interim chief executive pending a permanent appointment.

Following a recruitment campaign handled by the NHS Appointments Commission on behalf of the Secretary of State, David Bennett was appointed to the position of Chair with effect from 1 March 2011, replacing Steve Bundred. David Bennett's appointment as Chair followed the Secretary of State's announcement in November 2010 that he wanted to expand Monitor's Board and appoint a new Chair, to reflect our proposed change in role.

David's priorities in his new role are to ensure that we remain strongly focused on our compliance and assessment activities; to ensure we are prepared to take on the new role that is proposed in the Health and Social Care Bill, if approved by Parliament; and to build strong and collaborative relationships with key partners and stakeholders.

Monitor also launched its recruitment campaign to appoint a permanent Chief Executive in March with the aim of making an appointment in July 2011. David Bennett will continue to carry out the role of Interim Chief Executive until the appointment of a permanent Chief Executive.

Improving ways of working

One of our key areas of work in 2010/11 has been to implement Mapping our Future, Monitor's organisational development programme. This has resulted in a project management approach and the adoption of a new culture, values and behaviours framework.

Our structures and processes have been enhanced through the introduction of a Resource Planning Group (RPG) which has helped us to utilise the skills of our staff in the most appropriate and efficient way. The RPG meets monthly and considers practical solutions to potential resource constraints which may impact on the delivery of Monitor's organisational goals. The group also looks at project prioritisation, the skills mix of staff across the organisation and promotes collaborative working across

teams. A project management and planning tool has also been introduced to support the efficient and more effective delivery of projects.

We have reviewed the roles and composition of our senior management team and established a new committee structure with broader membership to facilitate greater involvement and input from the wider leadership group.

Underpinning these new ways of working is our culture, values and behaviours framework that encompasses what it means to work at Monitor. Following a period of extensive staff involvement, the framework developed into five organisational values, each underpinned by three to five behaviours. The culture, values and behaviours are specific to Monitor, reflecting our role as a regulator and the diverse skills and experience of our staff.

Our culture statement, “we are a focused team of professional and committed people who are passionate about making a difference to healthcare,” is supported by the five organisational values: professionalism; respect; personal responsibility; recognition; and collaboration.

We have committed to carry out a ‘temperature check’ survey among staff every quarter to analyse how well they feel the culture, values and behaviours are embedded within the organisation. Initial feedback has been encouraging and we will continue to listen to staff and put improvements in place where necessary.

Staff capacity and development

The past year has seen a significant increase in demand on Monitor’s staff resource given the preparation for the proposed changes to our role, an increase in risk-assessing transactions and our ongoing assistance with the Mid Staffordshire Public Inquiry. Alongside this additional work, we have continued to operate effectively to achieve our organisational objectives and remain focused on our core areas of assessment and compliance on a ‘business as usual’ basis.

The work of our regulatory operations teams has increased as more foundation trusts have been authorised and more trusts with problems identified. We have reviewed the capacity and capability of these teams and increased staff levels within the compliance team as a result. We also employed interim staff to support our teams working on a greater number of transactions, as part of the Transforming Community Services initiative (see page 30). We continue to monitor staff capacity across the organisation.

We have updated and expanded our staff induction programme which has been rolled out over the year. There has been positive feedback on its content which includes increased opportunities for new staff to meet different teams and understand how the different areas of Monitor operate and work together.

Our staff development programme has been further enhanced with popular knowledge sessions that have focused on economic regulation. We delivered a successful CPD programme for regulatory operations staff and continue to support and develop staff at all levels.

In light of our potential change in role, the wider issues surrounding public spending cuts and the public sector pay freeze, we are mindful of the need to retain staff and ensure we develop their invaluable knowledge and skills. We therefore reviewed our retention/recognition strategy in 2010/11 with a focus on ensuring that significant contribution is recognised. We continue to build on our competency framework and on performance management as a whole. The framework is now embedded within our processes, and staff members and line managers are using it to good effect.

Developing knowledge and skills

Monitor is committed to promoting a culture of knowledge transfer and operates a popular secondment scheme. The scheme is an integral part of our approach to staff development whilst also ensuring that Monitor benefits from learning and knowledge from outside the organisation.

Sabir Mughul is an Assessment Manager at Monitor who recently completed a secondment within the Treasury.

During the course of his secondment, Sabir has gained a solid understanding of how central government and the Treasury work and has developed key skills. “I have built on my people skills, creative thinking methodologies, and communication skills,” says Sabir. “I’ve been able to bring my strong financial background and the wealth of front-line experience I’ve gained at Monitor to this role, which has been invaluable.”

“Monitor has been unwavering in its commitment to my personal development”, he says. “At a time of increased workload at Monitor, it has continued to support me through the secondment process and enabled me to take on this challenge. It could have called me back at any point, given the changes taking place and the impact these have had on resources, but has allowed me to stay. I’m impressed that Monitor recognises the value of placing staff within other organisations.”

Monitor takes the secondment process seriously and potential secondees go through a rigorous selection procedure. Sabir had to formally apply for the post and undergo an internal interview. Once successful, he also went through a written assessment, presentation process and interview at the Treasury.

While on secondment Sabir has had quarterly meetings with his line manager at Monitor to assess his progress and keep him informed of developments. On returning to Monitor, he has actively shared the knowledge he gained with colleagues.

Managing knowledge and information

We continue to roll out our three-year knowledge management strategy. This will enable us to capture, share and use our information more effectively, and also exchange relevant data with foundation trust, applicants and our partners.

Two phases of the strategy were completed during 2010/11.The first was the launch of connect2, our central information repository. Given our focus on collaborative working across teams, a single point of access and information is invaluable and ensures that we retain and utilise our information and knowledge assets. This system has also improved the communication of breaking news to staff, which we have

particularly useful during the last few months during the Government's listening exercise on the Health and Social Care Bill. The Knowledge and Information Management team, in conjunction with the Communications team, has managed the roll-out of connect2 and associated training. The system was subsequently upgraded in March 2011 and feedback has been positive.

The second phase was support for the assessment team. A pilot system is operational which improves document management, process efficiency, and information sharing across the organisation. It also offers applicant trusts a more streamlined and reliable process for managing their submissions to us.

We continue to maintain a high quality external website on which we publish all our statutory reports, our guidance on assessment and compliance, and where we keep a register of NHS foundation trusts. In our stakeholder survey, the website scored highly and is widely recognised as a source of high quality information about Monitor and NHS foundation trusts.

Measuring our performance

Each year we conduct a survey of our NHS stakeholders to understand their views on how well we are carrying out our role. This year's responses showed that 94% of respondents felt that we carried out our functions very or fairly well. We will continue to engage with our stakeholders to understand their views on how we are performing.

Our environment

Monitor's commitment to providing a safe, pleasant and environmentally sound working environment continues and we are pleased to report very high levels of user satisfaction with the office environment.

We took part in the Office of Government Commerce property benchmarking exercise in 2010 which aims to improve efficiency and involves submitting data on a wide range of areas including environmental performance. The final report was published in October and gave Monitor a 'good performer' rating in the key areas of carbon produced, and water consumption and non-recycled waste per full-time employee. This means that in these areas, Monitor outperforms the benchmark by at least 10% for an equivalent private sector organisation.

During a period in which the organisation has continued to grow and where margins for improvements are small, Monitor reduced energy consumption by 0.3%.

Monitor remains fully compliant in all areas of health and safety and has carried out all required risk assessments.

Monitor's Disability Equality Scheme and Equality Duty

Monitor has a comprehensive Equality and Diversity Policy and is committed to promoting equal opportunities to all regardless of race, gender, disability, age, faith, religion or sexual orientation. Our Disability Equality Scheme forms an essential part of this Policy and states that Monitor will promote equality of opportunity for all under the disability discrimination legislation.

Our Scheme for 2009/2012 includes an Action Plan against which we measure performance. In 2010/11, we have: delivered comprehensive equality and diversity training for all staff, incorporating disability awareness; continued to use the 'two ticks' disability symbol on all recruitment advertising; remained committed to our guaranteed interview scheme; carried out workstation assessments; and provided information in relevant formats to suit individual needs on application.

Monitor made preparations to meet our new general equality duty under the Equality Act 2010. This provision came into force on 6 April 2011.

Monitor's staff profile

	Female	Male	Average age	Staff turnover	Black and ethnic minority representation
2010/11	61%	39%	36.6 years	11.3%	16%
2009/10	57%	43%	36 years	12.4%	15%
2008/09	59%	41%	34.4 years	9.1%	12.5%

Performance against 2010/11 business plan objectives: continuing to improve as a high performing organisation

Themes	Actions	Outcome
Ensure that Monitor has the appropriate board level organisational and committee structures and processes to support a non-executive chair	Establish new leadership structures and processes to support the split of the chair and chief executive roles.	**Action completed**
	Ensure a smooth transition from any interim arrangements, when posts have been filled substantively.	**Action completed** Transition plans developed and implemented.
	Develop and implement an induction programme for new interim and permanent roles.	**Action completed** Staff induction improved.
	Provide advice and guidance on best corporate governance practice in the context of Board level changes in 2010.	**Action completed** Board Secretary (or representative) provided advice and highlighted best practice as appropriate.
	Continue to develop, operate and review Monitor's risk management framework, register and profile.	**Action completed** See page 84.
Ensure that Monitor has the appropriate structure, capabilities and resources to regulate an increasing number of NHS foundation trusts and trusts with financial and governance challenges	Review the roles and composition of the senior management team to ensure that it is configured for a growing organisation and has the appropriate representation.	**Action completed** New committee structure introduced to increase involvement of wider leadership group.
	Ensure career development is aligned with the succession framework.	**Action partially completed** • Chief Executive held career discussions with members of the wider leadership group. • Executive coaching provided for senior managers.
	Review the capacity and capability of our regulatory operations teams to ensure they are staffed appropriately.	**Action completed** • Compliance team staffing increased in line with number of foundation trusts. • New Knowledge and Information Management system enhanced capacity.
	Develop and operate a resourcing plan which provides a mechanism for the appropriate scale up and down of resources, utilises internal resources flexibly, through a project-based approach, and facilitates cross-organisation working.	**Action completed** See page 54.
	Provide legally sound advice to the Board, senior management team and all operational areas and identify and	**Action completed**

	manage all legal risks appropriately to ensure a legally compliant organisation.	
Develop our staff's skills and capabilities and ways of working supported by a project focused approach in line with the Mapping our Future initiative	Continue to strengthen senior management skills in leadership and people management, assisted by the coaching programme and role modelling behaviours as identified by the Mapping our Future programme.	**Action completed** • New culture, values and behaviours framework adopted (see page 55). • Executive coaching and training provided for senior managers.
	Support the development of senior managers to lead Monitor's external communications.	**Action completed** Media training provided and senior managers supported to deliver presentations.
	Develop the skills and capabilities of staff, including project management skills, as identified by the Mapping our Future programme.	**Action completed** Staff trained on project management framework.
Recruit talented people and provide high quality learning and development programmes to support them to deliver their role to a high standard.	Continue to offer a range of opportunities for personal and professional development, both internally and externally, to support staff to maximise their full potential.	**Action completed** • Internal and external training available to all staff. • Internal promotions, external secondments and formal staff rotation between teams.
	Review and update the pay and grading framework to align it to Monitor's future vision and have a clear link between performance and development and pay and reward.	**Action completed** • Pay review completed and short term recommendations implemented. • Longer term recommendations will be considered as part of transition to Monitor's new role.
	Realign the performance review system to the new ways of working and support multi-functional project working and shared learning across the organisation.	**Action completed** System revised to reflect project-management approach, and new culture, values and behaviours.
Develop processes and information systems to support teams to work effectively together.	Develop and implement a knowledge management strategy to introduce new internal systems and processes.	**Action completed** First two phases of knowledge management strategy completed as planned (see page 56).
	Build on the programme of internal communications to ensure that staff have access to useful, timely information on political and policy developments.	**Action completed** • Intranet re-developed (see page 56). • Internal communications strategy developed and implemented.
	Provide communications advice and support to the Mapping our Future programme.	**Action completed** Communications plan developed and implemented.

Publish high quality information on the performance of Monitor and of the NHS foundation trust sector.	Ensure that all statutory communication requirements are met.	**Action completed** • Monitor's annual report and accounts and consolidated accounts of NHS foundation trusts published. • Register of NHS foundation trusts maintained on Monitor's website.
	Ensure that Monitor's website provides access to useful, timely information about Monitor and NHS foundation trusts.	**Action completed**
Work efficiently within Monitor's operating budget.	Continue to maintain robust internal financial control procedures to ensure that annual financial balance is achieved.	**Action completed**
	Continue to identify opportunities for Monitor to work more efficiently, effectively and economically.	**Action completed** • Implemented new project management process. • Rolled out knowledge management strategy. • Identified solutions to ensure could continue to deliver in light of the Government's spending restrictions.
Provide efficient and value for money facilities and information services to support an expanding organisation.	Continue to maintain a high quality and safe working environment which supports delivery of Monitor's functions, enhances staff performance and balances quality and cost, including energy efficiency.	**Action completed** See page 57.
	Review information needs and requirements and existing systems in the context of organisational needs and implement appropriate new IT projects to support and improve efficiency and effectiveness of all Monitor functions.	**Action completed** • Most information needs are now being delivered through knowledge management strategy. • IT projects included implementing a more resilient data storage solution.

Management commentary

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

In accordance with the provisions of Schedule 8 of the National Health Service Act 2006, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2011.

The Board

Mr Steve Bundred (Chair from 1 May 2010 until 28 February 2011)
Mr Bundred was appointed to Monitor's Board by the former Secretary of State for Health, Andy Burnham, from 1 May 2010 and took up his appointment on 4 May. In November 2010, the Secretary of State Andrew Lansley announced his intention to restructure Monitor's Board and to start the process for the appointment of a new chair, reflecting the new role envisaged for Monitor in the Health and Social Care Bill. Mr Bundred left Monitor on 28 February 2011, following the Secretary of State's appointment of Dr David Bennett as Chair.

Mr Bundred was previously Chief Executive of the Audit Commission. Prior to joining the Audit Commission in 2003, he was Executive Director of the Improvement and Development Agency for local government. Before that he was the Chief Executive of the London Borough of Camden for seven years, having previously been its Director of Finance. He has also previously worked for Lewisham and Hackney councils and London University's Birkbeck College.

Mr Bundred has been a TEC Assessor, a member of the Higher Education Funding Council, and the Chair of the Higher Education Review Group. He has been awarded an honorary Doctorate of Science by City University, of which he was formerly Deputy Pro Chancellor, and is a fellow of the Royal Society of Arts.

Dr David Bennett (Chair)
Dr Bennett was appointed to Monitor's Board by the Secretary of State for Health, Andrew Lansley, with effect from 1 March 2011. Until a permanent Chief Executive has been appointed, Dr Bennett will also continue to act as Monitor's interim Chief Executive.

Dr Bennett was, up until 1 March 2010, the Chair of The 10 Partnership, a company that provided strategic and operational support to the public sector, particularly in health. In addition, he advised boards on critical strategic and organisational matters, including working with Monitor's Board during the previous two years.

Previously, Dr Bennett was the non-political Chief Policy Adviser to former Prime Minister Tony Blair and Head of the Policy Directorate and the Strategy Unit in 10 Downing Street. Before this role, he was a senior partner at McKinsey & Co. In his 18 years with the firm he served a wide range of companies in most industry sectors, but with a particular focus on regulated, technology-intensive industries. Nearly all of this work was at board level, focusing on strategy, organisation and high-level operational issues.

Mr Christopher Mellor (Deputy Chair, Acting Chair until 4 May 2010)
Mr Mellor was Monitor's Acting Chair from 1 February 2010 until 4 May 2010 when Mr Steve Bundred took up his appointment as Chair.

On Mr Bundred taking up the position of Chair, Mr Mellor returned to his position as Monitor's Deputy Chair. He has been Chair of Monitor's Compliance Board Committee since it was established in February 2010. He is also Chair of Monitor's Remuneration Committee, as well as a member of the Audit and Risk Committee, the Honours Committee and the Nominations Committee.

Mr Mellor was Non-Executive Chair of Northern Ireland Water Ltd. from March 2006 until March 2010 and Senior Independent Non-Executive Director of Grontmij UK Ltd., the engineering consultancy, from April 2004 until November 2010. He retired as Chief

Executive of Anglian Water Group plc in March 2003, after 13 years with the company. Previously he was a non-executive director of Addenbrooke's NHS Trust between 1994 and 1998, where he was Chair of the Audit Committee. Mr Mellor was also a member of the Government's Advisory Committee on Business and the Environment.

Ms Jude Goffe (Non-executive Director)
Ms Goffe is the Chair of Monitor's Audit and Risk Committee and a member of the Remuneration Committee.

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

Baroness Elaine Murphy (Non-executive Director until 30 June 2010)
Baroness Murphy left Monitor at the end of June 2010, the end of her four-year appointment. She was a member of Monitor's Honours Committee.

Baroness Murphy is a clinician by background and was Professor of Old Age Psychiatry at UMDS Guy's and St Thomas' Hospitals from 1983 to 1996. At the time she also held an NHS general management position. Over the last 12 years she has held a number of executive board positions covering a wide range of areas including the voluntary sector and the Mental Health Act Commission. She was Chair of the North East London Strategic Health Authority until 30 June 2006 and Chair of St George's Medical School until September 2010. She sits in the House of Lords as a crossbencher.

Stephen Thornton (Non-executive Director, Acting Deputy Chair until 4 May 2010)
Mr Thornton was Monitor's Acting Deputy Chair from 1 February 2010 until 4 May 2010. He is a member of Monitor's Compliance Board Committee and the Honours Committee.

Mr Thornton is Chief Executive of The Health Foundation, which is an independent healthcare charitable foundation working to improve the quality of healthcare in the UK, and is a member of the Department of Health's National Quality Board.

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

The Senior Management Team (SMT)

Dr David Bennett (Interim Chief Executive)
As Interim Chief Executive David is responsible for the executive and operational management of Monitor, proposing and developing Monitor's strategy in consultation with the Board, and ensuring that the objectives set out in the Business Plan are delivered and that decisions made by the Board are implemented. As Interim Chief Executive David is also Monitor's Accounting Officer.

Stephen Hay (Chief Operating Officer)
Stephen is responsible for the regulatory operations of Monitor. This covers the assessment and authorisation of applicants for foundation trust status, monitoring the compliance of authorised NHS foundation trusts and managing intervention where required. He is also responsible for overseeing Monitor's knowledge and information management function.

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

Kate Moore (Director of Legal Services)
Kate provides legal advice to the Board and the SMT on delivering Monitor's functions within the powers laid down in the National Health Service Act 2006. This includes providing input into the legal aspects of the application, monitoring and intervention processes and ensuring that Monitor is legally compliant in all of its operations.

Janet Polson (Director of Human Resources and Corporate Services)
Janet is responsible for providing a comprehensive human resources (HR) function within Monitor. This includes HR operations, resourcing, organisational development and people development. Janet advises the Senior Management Team on adopting best HR policies and practices; she is also responsible for overseeing the provision of the corporate support services.

Sue Meeson (Director of Public Affairs and Communications)
Sue leads Monitor's communications work, ensuring that it supports the business strategy and acts as an enabler in the achievement of business objectives. Sue advises the Board and SMT on communications strategy and tactics as well as leading an integrated programme to build understanding of Monitor's role among key stakeholders.

Management report

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

Staff survey
As in prior years, Monitor continues to value and act upon feedback from key stakeholders including its staff. In the past staff surveys have been carried out internally but in 2010 Monitor participated in The Sunday Times Best Companies competition which incorporates many of the indicators used in Monitor's previous internal staff survey. Monitor participated in this survey again in 2011 and scored highly with 644 points out of a possible 1,000 points (2010: 650 points). In addition, and following the introduction of Monitor's culture, values and behaviours framework, Monitor now carries out a quarterly 'temperature check' to gauge staff views on the organisation's progress towards meeting the framework. As part of this survey, Monitor staff are asked to indicate how much they agree with two statements. The results averaged across the two surveys were:

- "Monitor, as an organisation, is a good place to work" - agree to completely agree: 90%
- "I am currently satisfied working at Monitor" - agree to completely agree: 82%

Sickness absence
The average time taken as sick leave by Monitor employees in 2010/11 was 3 days (2009/10: 2.8 days).

Environmental impact
Monitor remains committed to improving its environmental efficiency. We have developed an Environmental Management Policy to ensure our operations have a minimum impact on the environment.

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

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

Statement of payment practices
Unless the amounts charged are considered to be incorrect, Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2011. In March 2010 the Government introduced a five-day payment target for all central government departments, with the expectation that arm's-length bodies would also put plans in place to pay within 5 days. Monitor supports this objective, but as a small organisation with a finance team of one full-time and two part-time members of staff, it is not possible to achieve, as performance from month to month is significantly affected by the working patterns of the individuals processing invoices. However, we are committed to striving to meet a 10-day payment target and the outturn against this target for the year was as follows.

	Number	Value
Total number of invoices	3,188	£8.5m
Invoices meeting target	2,700	£6.1m
Percentage meeting target	85%	72%

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

Management of information risk and personal data-related incidents
Monitor seeks to minimise the risk of a serious untoward incident arising from the misuse of personal or sensitive data. To this end, Monitor has an Information Risk Policy and Information Charter to identify and manage Monitor's exposure to risk in relation to any information it compiles or stores. There were no incidents of personal data being lost or stolen in 2010/11, reportable to the Information Commissioner's Office or otherwise, or in any previous years of Monitor's operations.

Audit
The auditor of Monitor is the Comptroller and Auditor General. Details of the audit fee for the year ended 31 March 2011 are disclosed in note 4 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts (fee: £75,600) and the associated Whole of Government Accounts schedule for the year ended 31 March 2011 (estimated fee: £9,600).

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

Sustainability report

GREENHOUSE GAS EMISSIONS			
		2010/11	**2009/10**
Non- financial indicators (tCO_2e)	Total gross emissions for Scope 2	215	160***
	Total net emissions for Scope 2	215	160***
	Total gross emissions for Scope 3	18**	*
Related energy consumption (KWh)	Electricity: non-renewable	295,505	293,306
	Gas	295,191	*
Financial indicators (£'000s)	Expenditure on energy	35	33
	Expenditure on official business travel	91	138

*Prior year data unavailable
**This is the total of all measurable emissions. Monitor staff may claim for taxis when travelling on business but identifying the emissions from these has not been possible due to data limitations.
***This figure represents electricity emissions only as gas emission data is unavailable for 2009/10.

Monitor occupies three floors of a multi-tenanted building. The gas meter is for the whole building, so Monitor has taken a proportion of total usage based on our percentage floor area, which is how we are charged. As such, we have no direct control over our gas usage figures. However, we work closely with the managing agent to minimise heating costs and, thereby, gas consumption. The building is only heated during core office hours and not at all during weekends.

Monitor set a target for 2010/11 of maintaining electricity consumption, in terms of KWh per full time equivalent employee (FTE), at the same level as in 2009/10. In fact, KWh per FTE has dropped by 1.2% since 2009/10, which is the second consecutive year in which this measure has decreased. It is also of note that Monitor outperforms the benchmark set by the Office of Government Commerce for electricity consumption per m² for the class of office we occupy.

The target was exceeded because of increased staff awareness, in terms of switching off computers and lights when not in use, and the introduction of more energy efficient IT, such as thin client computers for users and the replacement of physical servers for "virtualised" servers.

Monitor expects to make further savings on electricity consumption per FTE in 2011/12 because, as the organisation continues to expand, our office space will become fully occupied for the first time. In addition, the full year benefit of more energy efficient IT introduced during this financial year will be realised in 2011/12.

WASTE				
			2010/11	**2009/10**
Non-financial indicators (t)	**Total waste**		**21**	*
	Non hazardous waste	Landfill	8	*
		Reused/recycled	13	*
Financial indicators (£'000s)	**Total disposal cost**		**10**	**7**
	Non hazardous waste	Landfill	7	4
		Reused/recycled	3	3

*Prior year data unavailable

Landfill waste costs are paid by the landlord and Monitor has taken a proportion of the total based on our percentage floor area, which is how we are charged. Monitor cannot control these costs directly but has its own initiatives in place to reduce landfill waste, such as recycling schemes for the following items: print toners, mobile phones, paper, cardboard, light bulbs, plastics and tin cans.

Again, overall volumes of waste per FTE, which is estimated at 0.08 tonnes, outperforms the benchmark set down by the Office of Government Commerce.

WATER				
			2010/11	**2009/10**
Non- Financial indicators (m^3)	Water consumption	Supplied	1,229	*
Financial indicators (£'000s)	Water supply costs		3	3

***Prior year data unavailable

The water meter is for the whole building, so Monitor has taken a proportion of total usage based on our percentage floor area, which is how we are charged. As such we have no direct control over how much water we consume, but we have schemes in place to minimise staff water consumption, such as low volume flush toilets, and high levels of maintenance which means that leaking pipes or dripping taps are attended to quickly.

Financial position

Monitor's net expenditure for the year was £14,771,000 (2009/10: £15,653,000). Staff costs represent 73% of net expenditure at £10,712,000 (2009/10: £9,027,000, 57%). Other operating costs include property, consulting and office expenses.

Grant-in-aid of £14,168,000 was received during the year of which £58,000 was applied to the purchase of fixed assets. Net assets at 31 March 2011 were £1,417,000 (31 March 2010: £2,020,000).

A comprehensive review of Monitor's activities and performance against business objectives during the year is set out on pages 5 - 61 of this report.

Governance disclosure

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

Board of Monitor
Board composition
Until July 2010 the Board had five members: a Chair and four non-executive directors. Following Baroness Murphy's departure at the end of her term of appointment, there are currently three non-executive directors. The National Health Service Act 2006 states that the regulator is to consist of a number of members (but not more than five) appointed by the Secretary of State. One of the members must be appointed as Chair and another as Deputy Chair. No individual or group of individuals dominates the Board's decision making. Collectively, the non-executive directors bring a valuable range of experience and expertise as they all currently occupy, or have occupied, senior positions in the healthcare sector, in industry and in public life.

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

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

The Chair and Chief Executive
The Chair of the Board is appointed by the Secretary of State for Health.

Christopher Mellor was appointed Acting Chair on 1 February 2010 and continued in this role until 4 May 2010. Steve Bundred was appointed as Chair from 1 May 2010; he left Monitor on 28 February 2011. David Bennett has been Chair since 1 March 2011.

The role of the Chair of the Board is to:

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

The role of the Chief Executive is to:

1. take ultimate responsibility for the delivery of the agreed Business Plan within the budget allocated by the Department of Health;
2. ensure that Monitor's business processes and internal management conform to the policies and standards set by the Board; and
3. ensure that Monitor's governance standards and processes are not breached.

David Bennett was appointed Interim Chief Executive on 1 March 2010 and will continue in this role until the appointment of a permanent Chief Executive. In order to mitigate the

possible risks associated with acting as both chief executive and Chair, David has prepared a statement of responsibilities for each of these roles, and has set out how he intends to achieve these. This has been approved by the Board.

The non-executive directors

Independence

Monitor's non-executive directors are independent of management and have no cross directorships or significant links which could materially interfere with the exercise of their independent judgements. Arrangements for the handling of any possible conflicts of interest are set out in Monitor's *Rules of Procedure*.

Terms of appointment

Following his initial term of three years, Christopher Mellor was reappointed for a further four years on 10 May 2007. In order to provide stability and experience to the Board as Monitor's role evolves, Mr Mellor's appointment was extended by the Department of Health until 31 March 2012. Jude Goffe started her second four year term of appointment on 8 May 2008. Stephen Thornton was reappointed for a second four year term of appointment on 1 October 2009. Elaine Murphy chose to leave Monitor at the end of the four years of her initial appointment.

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

Deputy Chair and Senior Independent Director

Until 4 May 2010, whilst Christopher Mellor was Acting Chair, Stephen Thornton took on the duties of the Deputy Chair and Senior Independent Director. Christopher Mellor returned to the position of Deputy Chair and Senior Independent Director from 4 May 2010.

The principal responsibilities of Monitor's Senior Independent Director are to:

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

How the Board operates

Monitor was established by the Health and Social Care (Community Health and Standards) Act 2003. This act was repealed on 1 March 2007 and re-enacted on that date in a consolidated act, the National Health Service Act 2006 (the Act).

In exercise of the powers under paragraph 6 (1) of Schedule 8 to the Act, Monitor made the *Rules of Procedure* to establish a Board and to regulate its procedure and that of its committees. The *Rules of Procedure* are published on Monitor's website.

Reserved and delegated authorities

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

1. definition of Monitor's strategic objectives;
2. approval of Monitor's corporate and business plans;
3. approval of all significant expenditure (greater than £500,000);
4. approval of Monitor's policies and procedures for the management of risk;

5. approval of variations to, and development of, Monitor's *Compliance Framework*;
6. decisions on applications for NHS foundation trust status;
7. approval of the use of Monitor's statutory powers of intervention; and
8. approval of the *Prudential Borrowing Code* for NHS foundation trusts.

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

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

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

Secretary to the Board
The Secretary to the Board is responsible for:

1. advising the Board on all corporate governance matters;
2. ensuring that Board procedures are followed;
3. ensuring good information flow between the Board and its Committees; and
4. facilitating induction programmes for non-executive directors.

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

Board meetings and attendance
The attendance of the Chair, individual non-executive directors and senior management team members at Board and Committee meetings during 2010/11 was as follows:

Name	**Board** Max.11	**Audit and Risk Committee** Max. 4	**Remuneration Committee** Max. 1	**Compliance Board Committee** Max. 10	**Honours Committee** Max. 1
Steve Bundred	9 (of 10)*	-	-	-	1
Christopher Mellor	11	4	1	10	1
Jude Goffe	9	4	-	-	-
Elaine Murphy	3 (of 3)**	_	1	-	1
Stephen Thornton	10	_	1	10	1
David Bennett	11	3	1	9	-

Stephen Hay	11	3	1	9	1
Adrian Masters	11	4	-	10	1
Kate Moore	10	-	-	9	-
Sue Meeson	11	-	-	9	1
Janet Polson	-	-	1	-	-

* Steve Bundred left Monitor on 28 February 2011
** Elaine Murphy left Monitor on 30 June 2010

There were no meetings of the Nominations Committee in 2010/11

Board effectiveness
Induction
On joining the Board, non-executive directors are given background information describing Monitor and its activities. Meetings with leaders of the core business areas are also arranged.

Performance evaluation
The Board set objectives for both the Chair and the Interim Chief Executive.

The Interim Chief Executive set objectives for the Senior Management Team against the objectives set for the Board and in relation to the delivery of the business plan for 2010/11.

Board Committees
The terms of reference of all the Committees are reviewed on a regular basis by the Secretary to the Board and by the Board as appropriate. Changes have been made to Committee Terms of Reference and the *Rules of Procedure* were reviewed in full in 2010/11.

Audit and Risk Committee
Members: until 4 May 2010: Jude Goffe (Chair of the Committee), Stephen Thornton and Marian Watson (independent member). From 4 May 2010: Jude Goffe (Chair of the Committee), Christopher Mellor and Marian Watson (independent member).

The Committee consists solely of independent members, two of whom are Monitor non-executive directors, all of whom have extensive financial experience in large organisations. Marian Watson was appointed to the Committee during 2008/09 as a non-voting full member involved in all aspects of the Committee's work. She has a special responsibility to ensure that there is an appropriate level of independent challenge to the assessment of risk and to the response of Monitor's Senior Management Team to external and internal audit.

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

The Secretary to the Board attends Audit and Risk Committee meetings and acts as Secretary to the Committee. The Committee met four times in the 2010/11 financial year. There have been no occasions on which either the internal auditor or external auditor have requested a private session with the Committee. All non-executive directors have access to

the minutes of all the Committee's meetings. A report is presented to the Board following each Audit and Risk Committee meeting.

Key duties of the Committee include:

1. appointment and management of the relationship with the internal auditors;
2. commissioning and receipt of reports from the internal auditors on the adequacy of Monitor's internal control systems;
3. consideration of all relevant reports from the Comptroller and Auditor General, Monitor's external auditor, including reports on Monitor's accounts, achievement of value for money and the responses to any management letters issued by them; and
4. in-depth review of Monitor's risk profile and report to the Board on the management and mitigation of current and emerging risks.

For the 2010/11 financial year, the internal auditors undertook the following reviews as part of the plan approved by the Audit and Risk Committee:

a) Financial Systems;
b) Knowledge Management;
c) Recruitment, Retention and Resourcing; and
d) Compliance and Intervention.

Nominations Committee
Members: until 4 May 2010: Christopher Mellor, Stephen Thornton (Chair of the Committee). From 4 May 2010 until 1 March 2011: Steve Bundred, Christopher Mellor (Chair of the Committee). From 1 March 2011: David Bennett, Christopher Mellor (Chair of the Committee). Janet Polson (Director of Human Resources and Corporate Services) normally attends meetings at the invitation of the Committee.

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

The Committee did not meet in 2010/11.

Remuneration Committee
Members: until 4 May 2010: Jude Goffe and Stephen Thornton (Chair of the Committee). From 4 May 2010: Jude Goffe and Christopher Mellor (Chair of the Committee).

Details of the Remuneration Committee and its policies, together with the directors' remuneration and emoluments are set out on pages 79 - 82.

Compliance Board Committee
Members: Two non-executive Board members, including the Chair (in 2010/11 Christopher Mellor and Stephen Thornton) and Stephen Hay (Chief Operating Officer), Adrian Masters (Director of Strategy), Kate Moore (Director of Legal Services), Sue Meeson (Director of Public Affairs and Communications), Merav Dover (Compliance Director), and Richard Guest (M&A and Restructuring Director).

The Committee was established in February 2010 to report to Monitor's Board following consideration of individual cases of potential significant breach of an NHS foundation trust's terms of authorisation and assessment of the risk of significant transactions involving NHS foundation trusts.

Honours Committee
Members: until 4 May 2010: Christopher Mellor (Chair of the Committee), Stephen Thornton and Elaine Murphy. From 4 May until 1 March 2011: Steve Bundred (Chair of the Committee), Christopher Mellor and Stephen Thornton.
From 1 March 2011: David Bennett (Chair of the Committee), Christopher Mellor and Stephen Thornton.

The Committee meets to consider nominations made by foundation trusts for Honours to be conferred in the Queen's New Year and Birthday lists.

Attendance at Board Committee meetings is shown on page 73.

Executive committees
Members of the Senior Management Team and other senior executives met twice a month from April 2010 to March 2011 as a Management Committee and a Strategy Committee (with the exception of August and September 2010 when the Management Committee did not meet, December 2010 when the Strategy Committee did not meet and with one additional meeting of the Strategy Committee in May 2011). The Compliance Executive Committee with Senior Management Team membership also met on a weekly basis, to consider operational compliance issues and to refer cases of potential significant breach and significant transactions to the Compliance Board Committee.

Executive Committee meetings and attendance
The attendance of Senior Management Team members at executive committee meetings during 2010/11 is as follows:

Name	**Management Committee** Max. 10	**Strategy Committee** Max.12
David Bennett	n/a	12
Stephen Hay	8	11
Adrian Masters	7	11
Kate Moore	9	10
Sue Meeson	10	11
Janet Polson	9	n/a

SMT attendance at meetings of Monitor's Board and its committees is shown on page 73.

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

David Bennett is non-executive director of GHK Holdings Ltd.

With effect from 1 May 2009 Stephen Hay was appointed non-executive director and Chair of the Audit and Risk Committee at the Department for Communities and Local Government, for which the remuneration is £10,000 per annum.

Kate Moore is Chair of Governors at a primary school. The position is unpaid.

Relationships with stakeholders

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

During 2010/11, regular meetings were held with a number of organisations and individuals, including ministers, special advisers and senior officials from the Department of Health, the Foundation Trust Network, chairs, chief executives and finance directors of NHS foundation trusts, the CQC, the Audit Commission and the National Audit Office. In addition, the Board of Monitor regularly holds lunches with key stakeholders on the day of its meetings. Attendees in 2010/11 included:

- Una O'Brien, Department of Health Director General of Policy and Strategy; and
- Lord Carter and Andrew Taylor, Chair and Director respectively of the Co-operation and Competition Panel.

Monitor's website
Our website, www.monitor-nhsft.gov.uk, is a primary source of information on Monitor. The site includes our publications, information on NHS foundation trust performance and information on our corporate practices.

Stakeholders who register for the service can receive a notification when any news releases are posted, consultations are launched, documents published and new events publicised. There is also an email facility to contact us.

NHS Foundation Trust Code of Governance
The *NHS Foundation Trust Code of Governance* was first published in 2006. Following reviews of its application in 2008 and 2009, and also taking account of more recent developments in governance practices relevant to NHS foundation trusts, we published a revised code in March 2010. The Code is designed to assist NHS foundation trusts in improving their governance by bringing together the best practice of both public and private sector governance.

The requirement for NHS foundation trusts to disclose their compliance (or otherwise) with the provisions of the Code in their respective statutory annual reports came into force for the 2007- 08 financial year. Monitor has complied with the main principles of the Code during the period 1 April 2010 to 31 March 2011, except for:

A.2.1	*The division of responsibilities between the Chair and Chief Executive should be clearly established, set out in writing and agreed by the Board.* During the majority of 2010/11 Monitor had a clearly established division of responsibilities between the Chair and Chief Executive agreed by the Board, with these posts being appointed to separately. The Secretary of State for Health appointed the Interim Chief Executive Dr David Bennett as Chair with effect from 1 March 2011. Dr Bennett will continue as Interim Chief Executive until the appointment of a permanent Chief Executive in 2011-12. In order to mitigate the possible risks associated with this arrangement, the Board has approved a statement of responsibilities for both roles, which sets out how they will be achieved.

A.2.2	*The Chair should on appointment meet the independence criteria set out in A.3.1. A Chief Executive should not go on to be Chair of the same NHS foundation trust.* The appointment of Dr David Bennett as Chair with effect from 1 March 2011 was made by the Secretary of State for Health and was not a matter for the Board.
C.1.2	*The nominations committee should regularly review the structure, size and composition of the board of directors and make recommendations for changes where appropriate. In particular, the nominations committee should evaluate the balance of skills, knowledge and experience on the board of directors and, in the light of this evaluation, prepare a description of the role and capabilities required for appointment of both executive and non-executive directors, including the Chair.* In light of the potential changes to our role, the Nominations Committee did not meet. The appointment of the Chair is a matter for the Secretary of State for Health and so it was not necessary for the Nominations Committee to meet on this matter.
C.2.1	*All other Executive Directors should be appointed by a Committee of the Chief Executive, the Chair and non-executive directors.* Given the statutory composition of Monitor's Board, appointments to Senior Management Team level are a matter for the Executive, having consulted with the Board as appropriate. There is no express reference to Executive Directors at Monitor.
E.2.1	*The Board of directors must establish a remuneration committee composed of non-executive directors which should include at least three independent non-executive directors.* Given the statutory composition of Monitor's Board, Monitor's Remuneration Committee comprises two independent non-executive directors.
F.3.1	*The Board must establish an audit committee composed of non-executive directors which should include at least three independent non-executive directors.* Given the statutory composition of Monitor's Board, Monitor's Audit and Risk Committee comprises two independent non-executive directors, and one independent member.

Remuneration report

Remuneration policy
The remuneration of Monitor employees, including the Chief Executive, is agreed annually by the Remuneration Committee, while the Chairman's salary is determined by the Secretary of State for Health. The membership of the Remuneration Committee comprises the Deputy Chairman of Monitor, a non-executive director and other members as from time to time agreed by the chairman of the Committee. Other non-executive directors attend by invitation. No member is involved in any decisions or discussion as to their own remuneration. In reaching its recommendations, the Committee has regard for the following considerations:

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

Service contracts
Appointments are made on merit on the basis of fair and open competition. Unless otherwise stated, the Senior Management Team covered by this report holds appointments which are open-ended.

With effect from 1 March 2010, David Bennett was appointed as Interim Chief Executive under a fixed term contract which ended on 28 February 2011. On 1 March 2011 David Bennett was appointed as permanent Chair of Monitor on a four-year contract and he will continue to hold the position of Interim Chief Executive until a permanent replacement is appointed.

Notice periods and termination costs
The required notice periods for the Senior Management Team are given in the table below. Under the terms of their contract, after one continuous year of service, members of the Senior Management Team are eligible for the same severance payment as any other Monitor employee, which is determined by the civil service severance compensation scheme.

	Notice period
David Bennett Interim Chief Executive	1 month
Stephen Hay Chief Operating Officer	6 months
Adrian Masters Director of Strategy	6 months
Kate Moore Director of Legal Services	3 months
Sue Meeson Director of Public Affairs and Communications	3 months
Janet Polson Director of Human Resources and Corporate Services	3 months

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's Senior Management Team and Board. These figures have been audited. Senior managers are salaried and are entitled to annual pay progression subject to individual performance against objectives. Monitor's 2010/11 performance pay increase ranged from 0% to 3% and the effect of this on senior management salaries has been shown below.

Senior Management Team	**2010/11 performance-related pay rise £'000**	**2010/11 salary (including pay rise) £'000**	**2009/10 salary £'000**
David Bennett Interim Chief Executive	N/A	240-245* *(290-295 full time equivalent)*	15-20* *(280-285 full year, full time equivalent)*
Stephen Hay Chief Operating Officer	0-5	185-190	180-185
Adrian Masters Director of Strategy	0-5	145-150	140-145
Kate Moore Director of Legal Services	0-5	125-130	120-125
Sue Meeson Director of Public Affairs and Communications	N/A	90-95	20-25 *(90-95 full year equivalent)*
Janet Polson Director of HR and Corporate Services	0-5	85-90	85-90

* The Interim Chief Executive's remuneration is non-pensionable.

Chairman and other non-executive directors	**2010/11 remuneration £'000**	**2009/10 remuneration £'000**
Christopher Mellor Acting Chairman * (stepped down with effect from 4 May 2010)	0-5* *(55-60 full year equivalent)*	5-10* *(55-60 full year equivalent)*
Steve Bundred Chairman ** (appointed with effect from 1 May 2010 and resigned with effect from 28 February 2011)	100-105** *(70-75 full year equivalent)*	n/a
David Bennett Chairman*** (appointed with effect from 1 March 2011)	0***	n/a
Christopher Mellor Non-executive director	30-35	15-20
Jude Goffe Non-executive director	10-15	25-30
Elaine Murphy Non-executive director (term of appointment expired on 30 June 2010)	0-5	15-20
Stephen Thornton Non-executive director	20-25	20-25

* As Acting Chairman, Christopher Mellor received a salary, while as a non-executive director his and all other non-executive director remuneration is in the form of fees for attendance at meetings.

**Steve Bundred's remuneration includes a payment in lieu of notice, for which reason his full year equivalent is lower than the actual remuneration he received.

***David Bennett will be paid a salary as Chairman of Monitor. However, he will only receive his salary in this capacity once he ceases to act as Interim Chief Executive.

All remuneration paid to the Chairman and non-executive directors is non-pensionable and none of the non-executive directors received benefits-in-kind.

Pension benefits	**Accrued pension at age 60 as at 31/03/11 £'000**	**Real increase in pension**	**CETV* at 31/03/10** £'000**	**CETV* at 31/03/11 £'000**	**Real increase in CETV* £'000**
Stephen Hay Chief Operating Officer	20-25	2.5-5	189	240	29
Adrian Masters Director of Strategy	15-20	0-2.5	165	202	13
Kate Moore Director of Legal Services	10-15	0-2.5	141	174	18
Sue Meeson Director of Public Affairs and Communications	0-5	0-2.5	6	33	24
Janet Polson Director of HR and Corporate Services	35-40	0-2.5	515	575	16

* Cash equivalent transfer value

** The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/3/10 and 31/3/11 have both been calculated using the new factors, for consistency. The CETV at 31/3/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

None of the Senior Management Team is a member of a scheme which automatically pays a lump sum on retirement.

Civil service pensions

Pension benefits are provided through the civil service pension arrangements. Existing staff may be in one of four defined benefit schemes; either a 'final salary scheme' (Classic, Premium, and Classic Plus) or a 'whole career scheme' (Nuvos). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Price Index (RPI). Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Nuvos, Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a variation of Premium but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as Classic. The Nuvos scheme was introduced on 30 July 2007 for all new staff unless they are already members of or eligible to rejoin the other schemes. Members of Nuvos build up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

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

Dr David Bennett
Chair and Interim Chief Executive
5 July 2011

Statement of Accounting Officer's responsibilities

Under the National Health Service Act 2006, the Accounting Officer is required to prepare accounts for each financial year on a going concern basis. The Secretary of State for Health directs that these accounts present a true and fair view of Monitor's income and expenditure and cash flows for the financial year, and to the state of affairs at the year end. In preparing the accounts, the Accounting Officer is required to:

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

From 3 March 2010, the Accounting Officer for the Department of Health appointed Monitor's Interim Chief Executive, David Bennett, as Monitor's Accounting Officer. The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and the safeguarding of Monitor's assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in *Managing Public Money*.

Statement on internal control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Monitor's policies, aims and objectives. These are set out in the National Health Service Act 2006 and Monitor's Corporate Plan 2009/12. In doing so, I must safeguard the public funds and assets in accordance with the responsibilities assigned to me in Managing Public Money and the Accounts Direction from the Department of Health dated 14 June 2007.

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

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

The system of internal control has been in place in Monitor for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Risk and control framework
Monitor's Risk Management Framework describes an organisation-wide approach to risk management supported by effective and efficient systems and processes. The framework clearly describes Monitor's approach to risk management and the roles and responsibilities of Monitor's Board, management and all staff. The framework was reviewed and revised in 2009/10, and scrutinised by the Audit and Risk Committee, prior to being approved by Monitor's Board in March 2010.

With regard to information governance, Monitor has continued to review and, when appropriate, enhance its risk based approach to ensuring its information systems remain both secure and highly available. To this end Monitor's IT and IS risk assessments have been brought into line with the organisation's corporate risk assessment model. Monitor has also implemented technologies such as replicated storage area networks and server virtualisation, to reduce the risk of system and data loss. This in turn reduces costs, space usage and power consumption, improving Monitor's carbon footprint.

Capacity to handle risk
Monitor's Board has overall responsibility for ensuring delivery of Monitor's strategies and goals as outlined in the annual *Business Plan*. When setting these strategies and goals, the Board considers Monitor's specific statutory functions as outlined in legislation and Board members' wider understanding of the healthcare system (the latter being informed by an annual Board workshop).

When the strategies and goals have been established, detailed plans are drawn-up for each strategy area with input from all staff. Risks against achievement of goals and strategies are reported to the Board on a quarterly basis via the Corporate Risk Register. Monitor's Internal Audit strategy categorises Monitor's business into three systems (operational systems, support systems and the governance framework). Internal Audit considers the risks to Monitor in terms of these systems and this directs Internal Audit's priorities which are reflected within the Annual Internal Audit Plan.

Monitor's Risk Management Framework was presented to all staff when it was implemented (in April 2010) and remains available for all members of staff to access on the organisation's intranet. To ensure that risk management is embedded within the organisation, the Risk Management Process Coordinator meets with Senior Management Team members (or senior managers to whom responsibility has been delegated) on a quarterly basis. This provides assurance that risk management is effective, and enables business units to identify if further actions are required to control the risk and to discuss if any new risks are emerging. Individual risk scores are amalgamated into goal-level risk scores and strategy-level risk scores for consideration by the Strategy Committee, Audit and Risk Committee and the Board.

Monitor's Audit and Risk Committee gives consideration to the corporate risk register on a quarterly basis and reports its conclusions directly to the Monitor Board. Internal Audit makes its own regular reports to the Audit and Risk Committee based on its own work programme. The Board discusses the most significant risks and the actions identified to mitigate the likelihood and impact of those risks. On an annual basis, the Audit and Risk Committee evaluates the effectiveness of the risk management framework and approves the *Annual Internal Audit Plan* for the following year.

Review of effectiveness

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

As the Independent Regulator of NHS Foundation Trusts, it is of paramount importance for Monitor to be able to demonstrate that risk management processes are in place and operating efficiently. KPMG, the internal auditor, was asked to continue to focus their efforts in this area and, with their assistance, Monitor continues to enhance its internal controls environment above and beyond the minimum levels required. Monitor's management team continues to ensure that appropriate and relevant controls are embedded in all areas of Monitor's work.

Internal audit work covering compliance and intervention processes continues to provide me with adequate assurance that effective controls are either in place or being developed to a higher degree of sophistication. Monitor also continues to apply the lessons learned from the internal audit review of its assessment, compliance and intervention activities in relation to Mid Staffordshire NHS Foundation Trust undertaken by KPMG in 2009. Monitor's Board has

maintained strategic oversight and review of internal control and risk management arrangements through regular reports by directors on their areas of responsibility and through specific papers for discussion at Audit and Risk Committee and Board meetings.

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

- individual internal audit reports and management responses;
- the internal auditors' annual report and opinion on the adequacy of our internal control system;
- National Audit Office audit reports and recommendations; and
- regular reports on Monitor's corporate risk register, including the identification of risks to the organisation's system of internal control and information about the controls that have been put in place to mitigate these risks.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems for 2010/11. As Monitor's Accounting Officer, I have gained assurance over the adequacy of Monitor's internal control environment during the period before my appointment from individual assurances given to me by each member of the Senior Management Team as to the adequacy of the internal control environment within their own directorate.

Dr David Bennett
Chair and Interim Chief Executive
5 July 2011

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Independent Regulator of NHS Foundation Trusts (Monitor) for the year ended 31 March 2011 under the National Health Service Act 2006. These comprise the statement of comprehensive net expenditure, the statement of financial position, the statement of cash flows, the statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the statement of Accounting Officer's responsibilities, the Accounting Officer 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 National Health Service Act 2006. 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 Monitor's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Monitor; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Monitor's affairs as at 31 March 2011 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with Secretary of State's directions issued under the National Health Service Act 2006; and
- the information given in the Board, Senior Management Team, management report, sustainability report and financial position sections of the annual report 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
- the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The statement on internal control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

7 July 2011

Statement of comprehensive net expenditure
for the year ended 31 March 2011

	Note	year ended 31/03/11 £000's	£000's	*restated year ended 31/03/10 £000's*	*£000's*
Expenditure					
Staff costs	3	(10,712)		*(9,027)*	
Amortisation/Depreciation	4	(398)		*(407)*	
Other operating expenditure	4	(5,106)		*(6,492)*	
Total expenditure			(16,216)		*(15,926)*
Income					
Miscellaneous income	5		1,445		*273*
Net expenditure			(14,771)		*(15,653)*
Interest payable/receivable			0		*0*
Net expenditure after interest			(14,771)		*(15,653)*
Comprehensive net expenditure for the year			(14,771)		*(15,653)*

Prior year balances have been restated to exclude the cost of capital charge, due to a change in accounting policy, the reason for and impact of which is explained in note 1 to the accounts.

All operations are continuing.

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

The notes on pages 93 to 102 form part of these accounts.

Statement of financial position
as at 31 March 2011

	Note	31/03/11 £000's	31/03/11 £000's	31/03/10 £000's	31/03/10 £000's
Non-current assets					
Intangible assets	6a		185		385
Property, plant and equipment	6b		772		962
Total non-current assets			957		1,347
Current assets					
Trade and other receivables	7	1,092		345	
Cash and cash equivalents	8	1,741		3,751	
Total current assets			2,833		4,096
Total assets			3,790		5,443
Current liabilities					
Trade and other payables	9	(1,933)		(2,924)	
Total current liabilities			(1,933)		(2,924)
Non-current assets plus net current assets			1,857		2,519
Non-current liabilities					
Financial liabilities	10	(131)		(190)	
Provisions for liabilities and charges	11	(309)		(309)	
Total non-current liabilities			(440)		(499)
Assets less liabilities			1,417		2,020
General reserve			1,417		2,020

The notes on pages 93 to 102 form part of these accounts.

Dr David Bennett
Accounting Officer
Chair and Interim Chief Executive
5 July 2011

Statement of cash flows
for the year ended 31 March 2011

	Note	year ended **31/03/2011** **£000's**	year ended **31/03/2010** **£000's**
Cash flows from operating activities			
Net expenditure on ordinary activities before interest		(14,771)	(15,653)
Adjustments for non-cash items			
Decrease in provisions	11	0	(112)
Depreciation charge	4	248	188
Amortisation charge	4	150	219
Loss on disposal of intangible non-current assets	4	50	0
Release of long term rent accrual		(59)	(59)
Adjustments for movements on working capital			
(Increase)/decrease in trade and other receivables falling due within one year	7	(747)	196
Increase/(decrease) in trade and other payables falling due within one year	9	(779)	702
Net cash outflow from operating activities		(15,908)	(14,519)
Capital expenditure			
Payments to acquire intangible non-current assets	6	(41)	(236)
Payments to acquire property, plant and equipment	6	(229)	(448)
Cash flows from financing activities			
Grant-in-aid received		14,168	14,300
Net decrease in cash and cash equivalents		**(2,010)**	**(903)**
Cash and cash equivalents at the beginning of the year	8	3,751	4,654
Cash and cash equivalents at the end of the the year	8	1,741	3,751

The notes on pages 93 to 102 form part of these accounts.

Statement of changes in taxpayers' equity
for the year ended 31 March 2011

	General Reserve 2010/11 £000's	General Reserve 2009/10 £000's
Balance at 1 April	**2,020**	**3,373**
Comprehensive net expenditure for the year	(14,771)	(15,653)
Grant-in-aid received towards revenue expenditure	14,110	13,542
Grant-in-aid received towards purchase of non-current assets	58	758
Balance at 31 March	**1,417**	**2,020**

Notes to the Accounts

1. Accounting policies

The annual report and accounts have been prepared in accordance with the *Government Financial Reporting Manual* (*FReM*) issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Monitor for the purpose of giving a true and fair view has been selected. The particular policies adopted by Monitor are described below. They have been applied consistently in dealing with items that are considered material in relation to the financial statements.

Accounting convention

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

Non-current assets

The *FReM* permits revaluation of property, plant and equipment, and intangible assets to their value to the business at current costs. Monitor has determined that current value is not materially different from historical cost and has therefore chosen to value property, plant and equipment, and intangible assets at historic cost.

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

Property, plant and equipment comprise IT hardware, furniture, fixtures, office equipment and leasehold improvements which individually or grouped cost more than £5,000. Assets of the same or similar type acquired around the same time and scheduled for disposal around the same time, or assets which are purchased at the same time and are to be used together, are grouped together as if they were individual assets. All non-current assets have been funded by Government grant-in-aid.

Amortisation and Depreciation

Amortisation and depreciation is provided from the month following purchase on all intangible assets and property, plant and equipment at rates calculated to write off the cost or valuation of each asset evenly over its expected life as follows:

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

Income

The main source of funding for Monitor is Government grant-in-aid from the Department of Health's Request for Resources 3. This is credited to the general reserve as it is received. Occasionally, Monitor receives income as a result of its operating activities. Miscellaneous operating income is recognised on the face of the *Statement of comprehensive net expenditure* and in accordance with the accruals convention.

1. Accounting policies continued

Operating leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Financial instruments
As required by the *FReM*, Monitor has accounted for financial instruments in accordance with IFRS 7.

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

Cost of capital charge
This year there was a change to the *FReM* which means that it is no longer necessary for Monitor to include a cost of capital charge in the *Statement of comprehensive net expenditure*.

As this represents a change in accounting policy, under IAS1 it would normally be necessary to produce two years of comparative data in the *Statement of financial position* and its notes, to illustrate the historic impact of the change. However, in Monitor's case, the cost of capital charge was only notional and was automatically reversed through the *Statement of comprehensive net expenditure*. Therefore, its inclusion or non-inclusion has no impact on the *Statement of financial position*.

In the Statement of comprehensive net expenditure, the comparatives for 2009/10 have been restated to exclude a notional cost of capital charge of £50,000 and the reversal of that charge.

Pensions
Monitor participates in the Principal Civil Service Scheme. The scheme is an unfunded defined benefit scheme. Monitor contributes annual premiums and retains no further liability except in the case of employees who take early retirement. Employers pension cost contributions are charged to operating expenses as and when they become due. Details are included in note 13 to the Accounts.

Impact of newly issued accounting standards not yet effective
The *FReM* requires *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to be applied in full. This includes the requirement to disclose the effect of future changes in accounting policy, whether elective or driven by impending changes in accounting standards, and to disclose the impact of International Financial Reporting Standards in issue but not yet effective.

We have reviewed the significant changes to the *FReM* proposed for 2011-12 and International Financial Reporting Standards issued but not yet effective and are satisfied that they have little or no impact on Monitor and, therefore, no specific disclosure is required in this respect.

2. Analysis of net expenditure by segment

As the independent regulator of NHS foundation trusts, Monitor's statutory duty is to authorise and monitor NHS foundation trusts. Monitor does not account separately for these two activities but management information is analysed by function or directorate. As all the directorates are either directly involved in or exist to support Monitor's statutory activities, Monitor effectively has only one reportable segment, so no analysis by segment is provided here.

3. Staff costs

a) Staff costs comprise the following

	year ended **31/03/11** **£000's**	year ended **31/03/10** **£000's**
Salaries and Wages	6,874	6,346
Social Security Costs	686	627
Employer's Pension Costs	1,507	1,449
Total cost of staff employed	**9,067**	**8,422**
Agency, seconded, temporary and interim	1,645	605
Total cost of staff	**10,712**	**9,027**

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

As at 31 March 2011, there were 112 salaried staff members (31 March 2010: 100), 106 of whom are members of the Principal Civil Service Pension Scheme, five of whom are members of the Partnership Civil Service Pension Scheme, and one of whom is not a member of a pension scheme.

Monitor engages staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2011 there were 36 staff working at Monitor on this basis (31 March 2010: seven).

The average number of whole-time equivalent employees during the year ended 31 March 2011 was 103 (year ended 31 March 2010: 96). The average number of whole-time equivalent agency, secondment, temporary and interim staff was 16 (year ended 31 March 2010: six).

4. Other operating expenditure

	year ended 31/03/11 £000's	year ended 31/03/10 £000's
Property expenses	1,187	918
Office expenses	977	1,832
Consulting services	1,168	1,939
Audit fee for Monitor	26	24
Audit fee for consolidated accounts	85	86
Other professional fees	1,271	1,050
Depreciation	248	188
Amortisation	150	219
Dilapidations	0	72
Loss on disposal of intangible non-current assets	50	0
Travel and subsistence	112	164
Communication expenses	132	284
General expenses	98	123
Total other operating expenditure	**5,504**	**6,899**

5. Miscellaneous income

	year ended 31/03/11 £000's	year ended 31/03/10 £000's
Income from secondments	146	152
Rental income	126	52
Insurance income	340	0
Other miscellanenous income	833	69
	1,445	**273**

During the year, Monitor received income from its insurer to cover legal fees incurred in relation to the the Mid Staffordshire Public Inquiry, which commenced in November 2010.

Other miscellaneous income includes £100,000 received from the Health Foundation to fund a project undertaken by Monitor and £690,000 received from the Department of Health to reimburse Monitor for expenses incurred on its behalf.

6. Non-current assets

a) Intangible assets

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1st April 2010	941	464	1,405
Disposals	(631)	(423)	(1,054)
At 31st March 2011	**310**	**41**	**351**
Amortisation			
As at 1st April 2010	620	400	1,020
Charge for year	113	37	150
Reverse disposals	(581)	(423)	(1,004)
At 31st March 2011	**152**	**14**	**166**
Net Book Value at 31 March 2010	321	64	385
Net Book Value at 31 March 2011	**158**	**27**	**185**

Prior Year

	Software licences	Information technology	Total
	£000's	£000's	£000's
Cost or valuation			
As at 1st April 2009	755	423	1,178
Additions	186	41	227
At 31st March 2010	**941**	**464**	**1,405**
Amortisation			
As at 1st April 2009	542	259	801
Charge for year	78	141	219
As at 31st March 2010	**620**	**400**	**1,020**
Net Book Value at 31 March 2009	213	164	377
Net Book Value at 31 March 2010	**321**	**64**	**385**

6. Non-current assets continued

b) Property, plant and equipment

	IT equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
	£000's	£000's	£000's	£000's
Cost or valuation				
As at 1st April 2010	653	518	907	2,078
Additions	48	0	10	58
Disposals	(134)	0	0	(134)
At 31st March 2011	**567**	**518**	**917**	**2,002**
Depreciation				
As at 1st April 2010	382	351	383	1,116
Charge for year	115	43	90	248
Reverse Disposals	(134)	0	0	(134)
At 31st March 2011	**363**	**394**	**473**	**1,230**
Net Book Value at 31st March 2010	271	167	524	962
Net Book Value at 31st March 2011	**204**	**124**	**444**	**772**

Prior Year

	IT equipment	Furniture, fixtures and office equipment	Leasehold improvements	Total
	£000's	£000's	£000's	£000's
Cost or valuation				
As at 1st April 2009	507	408	670	1,585
Additions	172	122	237	531
Disposals	(26)	(12)	0	(38)
At 31st March 2010	**653**	**518**	**907**	**2,078**
Depreciation				
As at 1st April 2009	335	317	314	966
Charge for year	73	46	69	188
Reverse Disposals	(26)	(12)	0	(38)
At 31st March 2010	**382**	**351**	**383**	**1,116**
Net Book Value at 31st March 2009	172	91	356	619
Net Book Value at 31st March 2010	**271**	**167**	**524**	**962**

7. Trade receivables and other current assets - amounts falling due within one year

	31/03/11 £000's	31/03/10 £000's
Prepayments	543	299
Other receivables	549	46
	1,092	345

7a. Trade receivables and other current assets - intra Government balances

	31/03/11 £000's	31/03/10 £000's
Balances with central Government bodies	407	14
Balances with local Government bodies	266	0
Balances with bodies external to Government	419	331
	1,092	345

8. Cash and cash equivalents

The following balances at 31 March were held at:	31/03/11 £000's	31/03/10 £000's
Office of HM Paymaster General	0	3,673
Government Banking Service	1,659	0
Commercial banks and cash in hand	82	78
	1,741	3,751

9. Trade payables and other current liabilities

Amounts falling due within one year:	31/03/11 £000's	31/03/10 £000's
Trade payables	382	643
Tax and national insurance contributions	242	213
Pensions payable	157	139
Liability relating to rent-free period	59	59
Non-current asset payables	0	212
Accruals and deferred income	1,093	1,658
	1,933	2,924

9a. Payables - intra Government balances

	31/03/11 £000's	31/03/10 £000's
Balances with central Government bodies	399	352
Balances with bodies external to Government	1,534	2,572
	1,933	2,924

10. Financial liabilities

	31/03/11 £000's	31/03/10 £000's
Liability relating to rent free period	131	190

11. Provisions for liabilities and charges

	Dilapidation provision
	£000's
Provision as at 1st April 2010	309
Charge for the year	0
Provision as at 31 March 2011	**309**

Monitor holds a provision for dilapidation for its office space at 4 Matthew Parker Street.

Analysis of expected timing of discounted flows

	Dilapidation provision
	£000's
Within 1 year	0
Within 2 to 5 years	309
After more than 5 years	0
	309

12. Operating leases

Total minimum lease payments under operating leases are given in the table below, analysed according to the period in which the payments fall due.

	31/03/11	31/03/10
	£000's	£000's
Within 1 year	748	729
Within 2 to 5 years	1,833	2,879
After more than 5 years	0	85
	2,581	**3,693**

13. Pension scheme

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

For 2010-11, employer's contributions of £1,487,402 were payable to the PCSPS (2009-10: £1,428,744) at one of four rates in the range 16.7% and 24.3% of pensionable pay , based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of benefits accruing during 2010-11 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £17,959 (2009-10: £18,374) were paid into one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,382 (2009-10: £1,410), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2011 were £2,574 (31 March 2010: £1,410).

14. Capital commitments

There were no capital commitments at 31 March 2011 that require disclosure.

15. Related parties

Monitor is a non-departmental public body sponsored by the Department of Health which is regarded as a related party. Amounts owing from and to the Department of Health are reflected in receivables and payables respectively.

In 2010-11 the value of related party transactions with the Department of Health was £5,240 (2009-10: £3,489). This primarily relates to the provision of payroll services for Monitor. Monitor also recharged £690,000 to the Department of Health for costs incurred on its behalf.

In addition, Monitor has had a small number of transactions with other government departments and other central government bodies.

One of Monitor's non-executive directors is the CEO of the Health Foundation from which organisation Monitor received £100,000 in 2010-11 to fund a project undertaken by Monitor. No other board member, member of senior management or other related party has undertaken any material transactions with Monitor during the year.

16. Financial instruments

IFRS 7, Financial Instruments Disclosure, requires the disclosure of the role that financial instruments have had during the period in creating or changing the risk an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk for Monitor than would be typical of the listed companies to which IFRS 7 mainly applies, as described below.

Liquidity risk

The main source of funding for Monitor is Government grant-in-aid through the Department of Health's Request for Resources 3. This is paid to Monitor monthly on the basis of a payment schedule agreed annually with the Department of Health. By ensuring that expenditure is maintained within the budgetary allocation, Monitor faces minimal liquidity risk.

Interest rate risk

Throughout the year ended 31 March 2011, Monitor held no interest bearing assets or liabilities and, therefore, was not subject to any interest rate risk.

Credit risk

As can be seen in note 7a, at 31 March 2011, only £419,000 (31 March 2010: £331,000) of Monitor's receivables were with bodies external to Government. Of these, £277,000 were prepayments and £21,000 were season ticket loans, which are recoverable through payroll. Given that intra Government balances are not subject to credit risk, Monitor faced very little credit risk at 31 March 2011.

Most of Monitor's cash balance is held with the Government Banking Service. Monitor also maintains a commercial bank account with HSBC but the balance on this account is automatically reduced if it ever rises above £100,000. Given the limit on the amount held and the low risk of HSBC failing, Monitor faces minimal credit risk as a result of maintaining this account.

17. Contingent liabilities

There were no contingent liabilities at 31 March 2011.

18. Events after the reporting date

The authorised date for issue is 7 July 2011.

In 2010/11, the Government's Health and Social Care Bill was published which set out proposed reforms for the NHS and outlined a future new role for Monitor. In early April 2011, the Government announced that it was taking the opportunity of a natural break in the passage of the Health and Social Care Bill to “pause, listen and engage.” The NHS Future Forum was established to lead this exercise and submitted its report to the Government, following the pause, in June 2011. The Government subsequently published its detailed response to the Forum's recommendations, which describes Monitor’s core duty, as part of its proposed new role, as protecting and promoting patients’ interests.

There are no other events after the reporting date which require disclosure.

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