

**NHS Foundation Trusts:**  
Consolidated Accounts  
2012/13







# NHS Foundation Trusts: Consolidated Accounts 2012/13

1 April 2012 - 31 March 2013

Presented to Parliament  
by the Secretary of State for Health  
by Command of Her Majesty

July 2013

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Monitor  
4 Matthew Parker Street  
London  
SW1H 9NP  
Telephone: 020 3747 0000

Email: [enquiries@monitor.gov.uk](mailto:enquiries@monitor.gov.uk)

Website: [www.monitor.gov.uk](http://www.monitor.gov.uk)

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## Foreword

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 This Act was largely repealed on 1 March 2007 and re-enacted on that date in a consolidating statute, the National Health Service Act 2006 (the 2006 Act).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

Paragraph 25 of Schedule 7 to the 2006 Act requires newly authorised NHS foundation trusts to prepare accounts for the period beginning with the date on which they are authorised and ending with the following 31 March and for each successive 12 month period, and to submit them to Monitor. These accounts must be audited by auditors appointed by the NHS foundation trust's council of governors.

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor to prepare consolidated NHS Foundation Trust accounts and send a copy to the Secretary of State for Health. Under the 2012 Act the Secretary of State can direct the content and form of the accounts and also direct Monitor to send the consolidated accounts to the Comptroller and Auditor General for audit but did not do so for 2012/13. However, in order to ensure the transparency and accuracy of our consolidated accounts, we have requested the Comptroller and Auditor General to audit the consolidated accounts presented in this report. From 2013/14, we understand the Secretary of State will issue directions about the consolidated NHS Foundation Trust accounts to be prepared by Monitor and require them to be audited by the Comptroller and Auditor General. This will bring limited changes in practice from what Monitor currently prepares.

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

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 145 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2013. The dates of authorisation of these and periods of inclusion in the consolidated accounts are as follows:

Authorised on or prior to 1 April 2011 and consolidated for the year ended 31 March 2012 and the year ended 31 March 2013:

- 2gether NHS Foundation Trust
- 5 Boroughs Partnership NHS Foundation Trust
- Aintree University Hospitals NHS Foundation Trust
- Airedale NHS Foundation Trust
- Alder Hey Children's NHS Foundation Trust
- Ashford and St Peter's Hospitals NHS Foundation Trust
- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Berkshire Healthcare NHS Foundation Trust
- Birmingham and Solihull Mental Health NHS Foundation Trust
- Birmingham Children's Hospital NHS Foundation Trust
- Birmingham Women's NHS Foundation Trust
- Black Country Partnership NHS Foundation Trust
- Blackpool Teaching Hospitals NHS Foundation Trust
- Bolton NHS Foundation Trust
- Bradford Teaching Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Calderstones Partnership NHS Foundation Trust
- Cambridge University Hospitals NHS Foundation Trust
- Cambridgeshire and Peterborough NHS Foundation Trust
- Camden and Islington NHS Foundation Trust
- Central and North West London NHS Foundation Trust

- Central Manchester University Hospitals NHS Foundation Trust
- Chelsea and Westminster Hospital NHS Foundation Trust
- Cheshire and Wirral Partnership NHS Foundation Trust
- Chesterfield Royal Hospital NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Cornwall Partnership NHS Foundation Trust
- Countess of Chester Hospital NHS Foundation Trust
- County Durham and Darlington NHS Foundation Trust
- Cumbria Partnership NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Derbyshire Healthcare NHS Foundation Trust
- Doncaster and Bassetlaw Hospitals NHS Foundation Trust
- Dorset County Hospital NHS Foundation Trust
- Dorset Healthcare University NHS Foundation Trust
- East Kent Hospitals University NHS Foundation Trust
- East London NHS Foundation Trust
- Frimley Park Hospital NHS Foundation Trust
- Gateshead Health NHS Foundation Trust
- Gloucestershire Hospitals NHS Foundation Trust
- Great Western Hospitals NHS Foundation Trust
- Greater Manchester West Mental Health NHS Foundation Trust
- Guy's and St Thomas' NHS Foundation Trust
- Hampshire Hospitals NHS Foundation Trust (formerly Basingstoke and North Hampshire NHS Foundation Trust prior to January 2012)
- Harrogate and District NHS Foundation Trust
- Heart of England NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust
- Hertfordshire Partnership NHS Foundation Trust
- Homerton University Hospital NHS Foundation Trust
- Humber NHS Foundation Trust
- James Paget University Hospitals NHS Foundation Trust
- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Lancashire Care NHS Foundation Trust
- Lancashire Teaching Hospitals NHS Foundation Trust
- Leeds and York Partnership NHS Foundation Trust (formerly Leeds Partnerships NHS Foundation Trust prior to February 2012)
- Lincolnshire Partnership NHS Foundation Trust
- Liverpool Heart and Chest Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Luton and Dunstable Hospital NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Cheshire Hospitals NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust
- Milton Keynes Hospital NHS Foundation Trust
- Moorfields Eye Hospital NHS Foundation Trust
- Norfolk and Norwich University Hospitals NHS Foundation Trust
- Norfolk and Suffolk NHS Foundation Trust (formerly Norfolk and Waveney Mental Health NHS Foundation Trust prior to January 2012)
- North East London NHS Foundation Trust
- North Essex Partnership University NHS Foundation Trust
- North Tees and Hartlepool NHS Foundation Trust
- Northamptonshire Healthcare NHS Foundation Trust
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Northumberland, Tyne & Wear NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Oxford Health NHS Foundation Trust (formerly Oxfordshire and Buckingham Mental Health NHS Foundation Trust prior to February 2011)

- Oxleas NHS Foundation Trust
- Papworth Hospital NHS Foundation Trust
- Pennine Care NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Poole Hospital NHS Foundation Trust
- Queen Victoria Hospital NHS Foundation Trust
- Rotherham Doncaster and South Humber NHS Foundation Trust
- Royal Berkshire NHS Foundation Trust
- Royal Brompton & Harefield NHS Foundation Trust
- Royal Devon and Exeter NHS Foundation Trust
- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust
- Royal Surrey County Hospital NHS Foundation Trust
- Salford Royal NHS Foundation Trust
- Salisbury NHS Foundation Trust
- Sheffield Children's NHS Foundation Trust
- Sheffield Health & Social Care NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Somerset Partnership NHS Foundation Trust
- South Devon Healthcare NHS Foundation Trust
- South East Coast Ambulance Service NHS Foundation Trust
- South Essex Partnership University NHS Foundation Trust
- South London and Maudsley NHS Foundation Trust
- South Staffordshire and Shropshire Healthcare NHS Foundation Trust
- South Tees Hospitals NHS Foundation Trust
- South Tyneside NHS Foundation Trust
- South Warwickshire NHS Foundation Trust
- South West Yorkshire Partnership NHS Foundation Trust
- South Western Ambulance Service NHS Foundation Trust
- Southend University Hospital NHS Foundation Trust
- Southern Health NHS Foundation Trust
- Stockport NHS Foundation Trust
- Surrey and Borders Partnership NHS Foundation Trust
- Sussex Partnership NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust
- Taunton and Somerset NHS Foundation Trust
- Tavistock and Portman NHS Foundation Trust
- Tees, Esk and Wear Valleys NHS Foundation Trust
- The Christie NHS Foundation Trust
- The Clatterbridge Cancer Centre NHS Foundation Trust (formerly Clatterbridge Centre for Oncology NHS Foundation Trust prior to April 2012)
- The Dudley Group NHS Foundation Trust
- The Hillingdon Hospitals NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals NHS Foundation Trust
- The Queen Elizabeth Hospital, King's Lynn, NHS Foundation Trust
- The Rotherham NHS Foundation Trust
- The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust
- The Royal Marsden NHS Foundation Trust
- The Royal Orthopaedic Hospital NHS Foundation Trust
- The Walton Centre NHS Foundation Trust
- University College London Hospitals NHS Foundation Trust
- University Hospital of South Manchester NHS Foundation Trust
- University Hospitals Birmingham NHS Foundation Trust
- University Hospitals Bristol NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust
- Wirral University Teaching Hospital NHS Foundation Trust
- Wrightington, Wigan and Leigh NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust



- York Teaching Hospital NHS Foundation Trust (formerly York Hospitals NHS Foundation Trust prior to August 2010)

Authorised on 1 August 2011 and consolidated for the eight month period ended 31 March 2012 and the year ended 31 March 2013:

- The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust

Authorised on 1 October 2011 and consolidated for the six month period ended 31 March 2012 and the year ended 31 March 2013:

- University Hospital Southampton NHS Foundation Trust

Authorised on 1 November 2011 and consolidated for the five month period ended 31 March 2012 and the year ended 31 March 2013:

- North East Ambulance Service NHS Foundation Trust

Authorised on 1 December 2011 and consolidated for the four month period ended 31 March 2012 and the year ended 31 March 2013:

- West Suffolk NHS Foundation Trust

Authorised on 1 March 2012 and consolidated for the one month period ended 31 March 2012 and the year ended 31 March 2013:

- Great Ormond Street Hospital for Children NHS Foundation Trust
- South Central Ambulance Service NHS Foundation Trust

Authorised on 1 April 2012 and consolidated for the year ended 31 March 2013:

- Royal Free London NHS Foundation Trust

Authorised 1 January 2013 and consolidated for the three month period ended 31 March 2013:

- West Midlands Ambulance Service NHS Foundation Trust

## Review of NHS foundation trust financial performance 2012/13

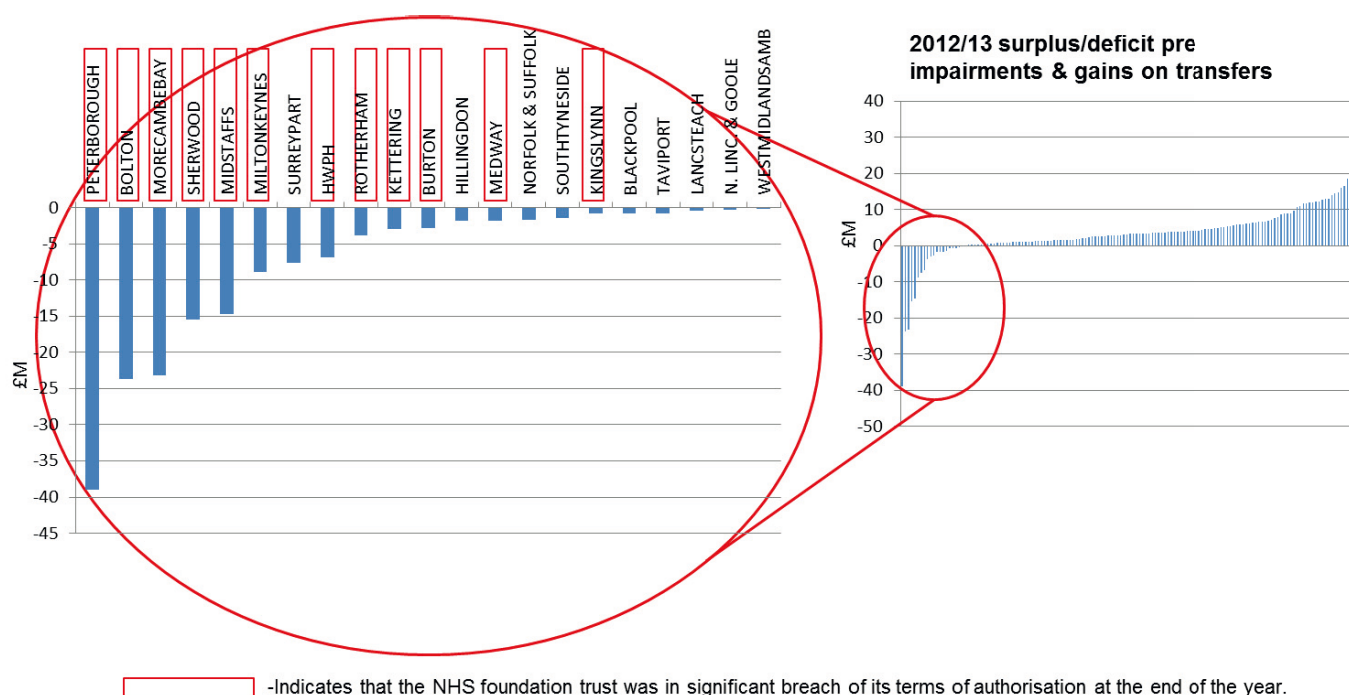
The NHS foundation trust sector has delivered a surplus before impairments and gains from transfers by absorption for the year ended 31 March 2013 of £487 million (2011/12: £439 million) and held cash of £4.5 billion as at 31 March 2013 (2011/12: £3.9 billion), an increase of £0.6 billion.

In 2012/13 the operating environment faced by the NHS foundation trust sector continued to be challenging with a national efficiency target of 4%, including an average tariff deflation of 1.8% together with increasing cost pressures caused by rising demand for services and inflationary pressures, creating a significant efficiency challenge for trusts. These pressures have led to a further squeeze on operating margins in the year with EBITDA reduced from 6.1% to 6.0%.

The table below shows the profile of NHS foundation trusts that make up the sector at 31 March 2013:

	Acute	Mental Health	Ambulance	Specialist	Total
<b>Number of trusts</b>	81	41	5	18	145
<b>% of sector turnover</b>	70%	21%	2%	7%	100%
<b>EBITDA margin</b>	5.8%	5.9%	7.6%	7.2%	6.0%
<b>Surplus (pre-impairment)</b>	203	167	9	108	487

The results for the year show that 86% of NHS foundation trusts generated a surplus for the year before charges for impairments and gains from transfers by absorption (124 out of 145 NHS foundation trusts). Twenty one NHS foundation trusts generated operating deficits which totalled £159 million before impairments and gains from transfers by absorption. The largest individual deficit was £39 million at Peterborough and Stamford Hospitals NHS Foundation Trust, which faces financial challenge from significant Private Finance Initiative (PFI) commitments. Six of these NHS foundation trusts have received financial support from the Department of Health during 2012/13 in the form of revenue Public Dividend Capital (PDC).



Financial risk ratings are Monitor's measure of financial risk. The sector had the following risk profile (where 5 represents the lowest risk and 1 represents the highest risk):

Financial Risk Rating	At 31 March 2013		At 31 March 2012	
	Number of trusts	% of sector	Number of trusts	% of sector
5	14	10	12	8
4	53	36	52	37
3	65	45	69	48
2	5	3	7	5
1	8	6	3	2
	<b>145</b>		<b>143</b>	

The proportion of NHS foundation trusts with the lower financial risk ratings of 4 and 5 at the end of 2012/13 has remained broadly consistent with the previous year (46% at the end of 2012/13 against 45% at the end of 2011/12). However the increased financial pressure in the sector has led to an increase in the proportion of NHS foundation trusts with the highest risk rating of 1 (6% at the end of 2012/13 against 2% in the prior year).

Financial and governance risk ratings are intended to indicate how likely it is that an NHS foundation trust is, or will be, in significant breach of its terms of authorisation. As at 31 March 2013 there were 19 NHS foundation trusts in significant breach of their terms of authorisation (17 as at 31 March 2012). Further information on governance risk ratings and NHS foundation trusts in significant breach in 2012/13 is detailed in the Annual Governance Statement. Since 1 April 2013, NHS foundation trusts have been subject to the new licensing regime, which replaces NHS foundation trusts' terms of authorisation.

During 2012/13 Monitor started its new regime for addressing issues faced by NHS foundation trusts which are in financial distress. In 2012/13 Monitor appointed Contingency Planning Teams (CPT) at Mid Staffordshire NHS Foundation Trust and Peterborough and Stamford Hospitals NHS Foundation Trust. The CPT assesses the clinical and financial sustainability of a trust. For Mid Staffordshire NHS Foundation Trust, the CPT's interim report concluded that the trust was both clinically and financially unsustainable in its current form. In April 2013, Monitor appointed Trust Special Administrators to safeguard the provision of health services which should continue to be provided by Mid Staffordshire NHS Foundation Trust. At Peterborough and Stamford Hospitals NHS Foundation Trust, the CPT's sustainability report found the trust to be clinically and operationally sustainable, but financially unsustainable in its current form. The CPT will shortly make an independent recommendation on the future configuration of services currently supplied by the trust to ensure that they are delivered on a sustainable basis. More information on these trusts is provided in the Annual Governance Statement included with these accounts.

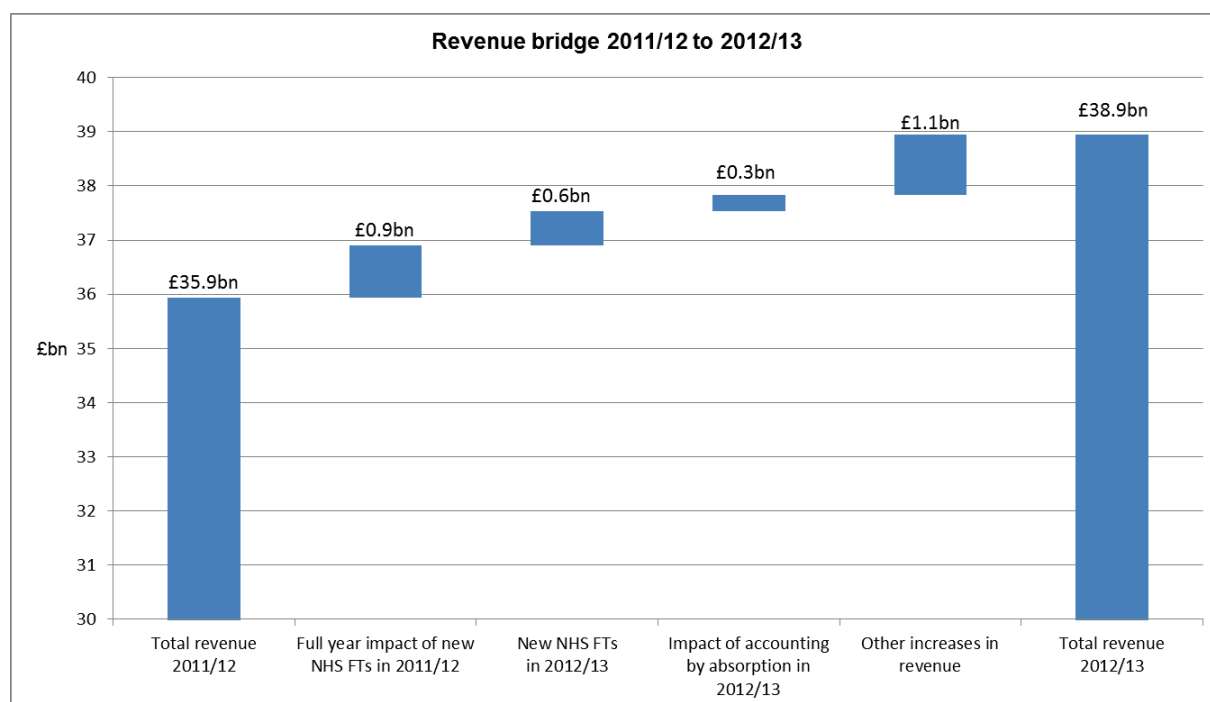
From the start of 2012/13, business combination transactions between an NHS foundation trust and another entity within the Department of Health group or local authority are accounted using absorption accounting principles. This approach is explained in the accounting policies to the consolidated NHS foundation trust accounts. In 2012/13, nine NHS foundation trusts have disclosed that they have had a transfer by absorption within the DH group, including a transaction between two NHS foundation trusts. Of the remaining seven, four NHS foundation trusts have taken on all of the services of four NHS trusts which have ceased to exist. More details are provided in note 37 to the accounts. In 2011/12, there were 77 transfers of services from PCTs under Transforming Community Services (TCS), and two transactions where NHS foundation trusts took on all of the services of two NHS trusts which ceased to exist.

There were no newly operational Private Finance Initiative (PFI) schemes in 2012/13. In 2011/12 there were three significant new schemes that came into operation which added £196 million to assets and liabilities on the balance sheet at 31 March 2012.

## Operating Performance

### Operating income

In the year to 31 March 2013, 145 NHS foundation trusts generated total revenues of £38.9 billion, an increase of £3.0 billion (8.4%) compared with the previous year. Approximately 33% (£1.0 billion) of the increase was driven by the full year impact of six NHS foundation trusts authorised partway through 2011/12 and 20% (£0.6 billion) of the £3.0 billion increase was driven by the impact of two new NHS foundation trusts during the year. 10% (£0.3 billion) of the increase was caused by services that have been transferred by NHS foundation trusts as a result of transfers by absorption. Increases in clinical revenues resulted from winter pressure funding, reimbursement for high cost drugs and other increases in income reflecting higher activity levels.



### EBITDA

In aggregate, EBITDA (Earnings before Interest, Tax Depreciation and Amortisation and excluding impairments) as a proportion of turnover, which is a proxy for overall operating efficiency, decreased from 6.1% in 2011/12 to 6.0% in 2012/13. As part of the increase in income detailed above, we believe that additional emergency activity has been carried out at very low or negative margins, due to the 30% marginal tariff and impact of higher agency spend. These challenges have contributed to a fall in margin compared to the prior year.

The EBITDA margin decline reflects the performance within the acute sector which saw a 0.2 percentage point fall due to the increased level of operating costs incurred to deliver the increased activity levels; premium costs relating to the use of contract and agency staff has been particularly high in A&E, diluting the EBITDA margin in the acute sector. Movement in the EBITDA margin within the ambulance sector is driven by the effect of one of the five ambulance trusts reporting a loss in 2012/13.

<b>EBITDA margins</b>	<b>2012/13</b>	<b>2011/12</b>
Acute	5.8%	6.0%
Mental Health	5.9%	5.9%
Ambulance	7.6%	8.9%
Specialist	7.2%	7.8%

#### *Surplus before impairment and gains from transfers by absorption*

The total surplus before impairments and gains from transfers by absorption was £487 million, which as a percentage of operating income for all NHS foundation trusts was 1.3% (2011/12: £439 million, 1.2%). The acute sector margin was significantly lower than the overall margin at 0.7% (2011/12: 0.6%). The margin for mental health, ambulance and specialist foundation trusts was 2.1%, 1.5% and 3.9% respectively (2011/12: 2.1%, 2.3% and 4.2%).

#### *Impact of impairments*

In 2012/13 net impairments charged to income and expenditure were £616 million (2011/12: £363 million). A further £331 million of net impairments were charged to reserves in the year, £66 million higher than the amount in the previous year (2011/12: £265 million). Ninety five NHS foundation trusts recorded impairments this year (2011/12: 84 trusts).

Of the £616 million charged to income and expenditure, £450 million reflects a change in the market value of the asset with a further £112 million due to impairments arising from management actions (for example decommissioning sites or wards, changes in use, or over-specification).

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

In the year, NHS foundation trusts generated a total surplus after impairments of £62 million, an decrease of £14 million compared with the £76 million surplus in 2011/12.

#### *Total comprehensive income for the year*

The total comprehensive expense was £57 million in 2012/13 compared with total comprehensive income of £119 million in 2011/12. The reduction in total comprehensive income is primarily driven by a higher level of impairments and lower level of gains from revaluations in 2012/13, partially offset by gains arising from transfers by absorption and an improved surplus position resulting from the increased size of the sector.

#### **Net finance costs**

Net finance costs increased by £31 million in the year, from £779 million in 2011/12 to £810 million in 2012/13. This increase included £12 million from the impact of inflation on PFI obligations. Other notable increases to finance costs in the year were a £12 million increase in Public Dividend Capital dividend payments, and an £8 million increase in interest payments on Foundation Trust Financing Facility loans (2012/13: £36 million; 2011/12: £28 million).

#### **Cash balances and borrowing**

Total cash balances amounted to £4.5 billion as at 31 March 2013 (2011/12: £3.9 billion), an increase of £0.6 billion. The increase is primarily driven by an improved operational performance of £0.2 billion before depreciation and impairments, and favourable working capital movements. The increase in trade payables at the year end compared to the prior year far exceeds the increase in trade receivables, contributing to NHS foundation trusts having more cash in the bank at year end. This cash balance is equivalent to six weeks' operating costs in a sector with an annual turnover of £39 billion. The net favourable movement in working capital during the year was £172 million (2011/12:

£339 million favourable). The number of receivable days increased to 14.6 days (2011/12: 14.4 days), and payable days increased to 33.6 days (2011/12: 32.9 days). £181 million more was spent on the purchase of property, plant and equipment than in 2011/12. Of the total cash balance £4.3 billion was held with the Government Banking Service at the year end. An underspend against forecast capital expenditure for 2012/13 has also contributed to a high cash balance for the sector.

Total long term and working capital borrowing at 31 March 2013 was £5.6 billion (2011/12: £5.6 billion), which compares with the aggregate Prudential Borrowing Limit for all NHS foundation trusts of £12.3 billion (2011/12: 11.8 billion). Of the £5.6 billion long term and working capital borrowing, £4.3 billion relates to PFI (2011/12: £4.4 billion), £1.2 billion relates to loans (2011/12: £1.0 billion) and £127 million relates to obligations under finance leases (2011/12: £125 million). The overall increase in borrowings is mainly driven by an increase in loans of £0.2 billion from the Foundation Trust Financing Facility. With effect from 1 April 2013, the Prudential Borrowing Code no longer applies to NHS foundation trusts, having been repealed by the Health and Social Care Act 2012. During 2013/14 Monitor will implement the risk assessment framework, under which NHS foundation trusts' financial risk will be assessed based on capacity to service capital costs and liquidity measures.

### **Capital expenditure**

Total purchases of property, plant and equipment (PPE) were £1.5 billion (2011/12: £1.6 billion). A large number of capital schemes have been brought into use during the year to provide new facilities to patients. Among the schemes completed are phase one of the Royal Free London NHS Foundation Trust's new Institute of Immunity and Transplantation and South Staffordshire and Shropshire Healthcare NHS Foundation Trust's Redwoods Centre, a new inpatient mental health facility in Shropshire. These are two examples among many. There are also schemes in the course of construction across the sector with a current capital value of £0.8 billion which will bring benefits in future years. Receipts from the sale of assets which amounted to £76 million (2011/12: £75 million). NHS foundation trusts continue to invest in their estates at levels significantly in excess of the depreciation charges in the year. Depreciation charges in 2012/13 were £1.1 billion (2011/12: £977 million).

### **Looking forward**

In 2012/13 NHS foundation trusts have continued to experience pressure on their finances, with average reductions in tariff of 1.8% as part of a national efficiency requirement of 4%, and NHS foundation trusts have continued to experience increasing demand for services. The challenges facing the sector show no sign of diminishing in 2013/14 and are likely to include a rise in treatment costs, increased patient expectations and demands from an ageing population.

In order to tackle these challenges commissioners and NHS foundation trusts will have to look at more innovative models of delivery and work with their partners in the local health economy. Changes are likely to focus on prevention in the community and better integration of primary, secondary and mental health care along with social care.

Funding will continue to be limited, potentially resulting in more cautious approaches to innovation in health care. While NHS foundation trusts recognise the need to embrace most of the recommendations of the Francis Report, there is a risk that concerns about heavier regulation and increased risk aversion among front line workers might have a knock-on effect on innovation. These factors are likely to increase the long-standing difficulties faced when making change happen in the NHS.

Dr David Bennett  
Chair and Chief Executive  
2 July 2013

## Statement of responsibilities and accountability framework

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

- the application of suitable accounting policies on a consistent basis;
- judgements and estimates to be made on a reasonable basis;
- a statement within the accounts as to whether applicable accounting standards have been followed, and to disclose and explain any material departures; and
- the preparation of the accounts on a going concern basis (except for in the unlikely event that it is intended for all of the NHS foundation trust's services to be discontinued and transferred to another entity).

In discharging its responsibilities under paragraph 17 of Schedule 8 to the Health and Social Care Act 2012, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with International Financial Reporting Standards (IFRS), as amended for NHS foundation trusts by the FReM and the FT ARM.

## Annual Governance Statement

This Annual Governance Statement (AGS) for the NHS foundation trust sector has been prepared on the basis set out in the FT ARM, to the extent that the requirements of the FT ARM are applicable in the context of the accountability framework set out above.

### Scope of responsibility

The Board of Monitor is not accountable for the internal control and systems of NHS foundation trusts; this is the responsibility of each NHS foundation trust's board. As accounting officer, the chief executive of each NHS foundation trust has responsibility for maintaining a sound system of internal control that supports the achievement of that NHS foundation trust's policies, aims and objectives. In addition the chief executive, as accounting officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the *NHS Foundation Trusts' Accounting Officer Memorandum*.

### The purpose of the system of internal control

Monitor's system of internal control is designed to support the achievement of Monitor's policies, aims and objectives. As part of this system, Monitor has established the following processes to ensure these accounts provide a 'true and fair' view of the NHS foundation trust sector:

- providing guidance to NHS foundation trusts and their auditors, including consolidation processes, through the FT ARM. This has been approved by the Secretary of State;
- facilitating the Technical Issues Forum, to which senior representatives from the National Audit Office, the Audit Commission and from each of the audit suppliers appointed as auditors of NHS foundation trusts are invited. The forum members discuss technical audit and accounting issues relating to NHS foundation trusts. The forum's terms of reference and minutes are published on Monitor's website;

- relying on the external auditors appointed by each NHS foundation trust's council of governors to ensure the truth and fairness of each set of accounts that have been consolidated into these accounts. These auditors have each undertaken an audit in accordance with the Audit Code for NHS Foundation Trusts (Audit Code), issued by Monitor;
- the appointment of the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consideration of their findings;
- the appointment of the Comptroller and Auditor General to undertake an audit of the consolidated accounts presented in this report; and
- consideration by Monitor's management and Audit and Risk Committee of the consolidated accounts and the processes established to derive them.

Each NHS foundation trust's annual report and accounts, which they lay before Parliament, includes an Annual Governance Statement for the year ended 31 March 2013. These statements confirm that there were no significant control issues within NHS foundation trusts except for those listed in the remainder of this consolidated statement. Each individual annual governance statement explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk cannot be effectively controlled.

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

#### *Risk environment*

Individual NHS foundation trusts generally reported continued improvement in their internal control systems during 2012/13. The key areas of additional focus have been on further development of internal control systems to:

- further develop a risk based approach to the identification and early rectification of potential problems through, for example, improved risk management, formation of governance and risk management committees and appointment of new risk management positions within the trust;
- improve information governance through, for example, implementation of information security management systems and increased staff training and awareness;
- improve achievement of key health care targets including infection control, A&E, cancer and referral to treatment times;
- identify ways to improve governance arrangements through the undertaking of internal and external risk assessments; and
- further improve systems and processes to ensure data quality.

Individual NHS foundation trusts also stated the importance of noting 'lessons learned' from review of the Francis Report published in February 2013 and embedding the recommendations made into future plans to improve the quality of patient care. The findings of the Francis Report have implications across health and social care. Among other matters Francis recommends there be:

- a relentless focus on patients' interests;
- an obligation to keep patients safe and protected from substandard care;
- a culture of intolerance to substandard care;
- empowerment of front-line staff to act with responsibility and freedom when standards have been compromised; and
- strong stable leadership in stable organisations.

#### *Governance*

NHS foundation trusts are assigned a quarterly governance risk rating (GRR) on a scale from 'green' to 'red', the latter being the rating of greatest concern. Risk ratings are also updated in 'real time' to



reflect, for example, a decision to find a trust in significant breach of its terms of authorisation or the Care Quality Commission's regulatory actions.

Over the course of 2012/13, the quarterly governance risk ratings assigned to NHS foundation trusts were as follows:

<b>Governance Risk Rating</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Green	81	88	80	67
Amber-Green	25	23	20	28
Amber-Red	16	9	20	24
Red	22	24	24	26
<b>Total</b>	<b>144</b>	<b>144</b>	<b>144</b>	<b>145</b>

The proportion of NHS foundation trusts that were rated red and amber-red has increased from 31% at quarter three to 34% at quarter four.

#### *Financial*

Monitor's financial risk rating (FRR) for a foundation trust reflected the likelihood of a financial breach of the terms of authorisation. A rating of 5 reflected the lowest level of financial risk and a rating of 1 the greatest. Over the course of 2012/13, the FRRs assigned to NHS foundation trusts were as follows:

<b>Financial risk rating</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
5	4	7	13	14
4	46	50	48	53
3	77	72	70	65
2	7	7	4	5
1	10	8	9	8
<b>Total</b>	<b>144</b>	<b>144</b>	<b>144</b>	<b>145</b>

Where appropriate, NHS foundation trusts with an FRR of 1 and 2 have developed financial recovery plans that are now being implemented.

#### *NHS foundation trusts in significant breach of their terms of authorisation*

During 2012/13 Monitor's Board:

- found seven NHS foundation trusts in significant breach of their terms of authorisation:
  1. Bolton NHS Foundation Trust;
  2. Royal National Hospital For Rheumatic Diseases NHS Foundation Trust;
  3. Sherwood Forest Hospitals NHS Foundation Trust;
  4. Kettering General Hospital NHS Foundation Trust;
  5. Cambridge University Hospitals NHS Foundation Trust;
  6. Stockport NHS Foundation Trust; and
  7. The Rotherham NHS Foundation Trust.
- continued to keep under review 12 NHS foundation trusts which were in significant breach of their terms of authorisation throughout 2012/13:
  1. Mid Staffordshire NHS Foundation Trust;

2. Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
  3. Basildon and Thurrock University Hospitals NHS Foundation Trust;
  4. Milton Keynes Hospital NHS Foundation Trust;
  5. Tameside Hospital NHS Foundation Trust;
  6. Medway NHS Foundation Trust;
  7. University Hospitals of Morecambe Bay NHS Foundation Trust;
  8. Peterborough and Stamford Hospitals NHS Foundation Trust;
  9. Burton Hospitals NHS Foundation Trust;
  10. Southend University Hospital NHS Foundation Trust;
  11. Derby Hospitals NHS Foundation Trust; and
  12. Queen Elizabeth Hospital King's Lynn NHS Foundation Trust.
- deemed five NHS foundation trusts were no longer in significant breach of their terms of authorisation:
    1. Blackpool Teaching Hospitals NHS Foundation Trust;
    2. James Paget University Hospitals NHS Foundation Trust;
    3. Gloucestershire Hospitals NHS Foundation Trust;
    4. Wirral University Teaching Hospital NHS Foundation Trust; and
    5. Cambridgeshire and Peterborough NHS Foundation Trust.

On determining an NHS foundation trust was in significant breach of its authorisation, Monitor would consider the appropriateness of using its statutory powers to require, for example, the trust to adopt a particular course of action. In any event, once a trust was determined to be in significant breach, Monitor would meet with the trust board regularly to ensure it developed a credible recovery plan and that actions against the plan were closely monitored. In the case of financial concerns, Monitor would require the trust to report its financial position to Monitor on a monthly basis.

Where Monitor found that sufficient progress was not being made against plan, or that new problems have emerged, it was likely to reconsider the use of our statutory powers. At all times, Monitor worked closely with the Care Quality Commission and required boards of trusts in significant breach to safeguard quality when implementing recovery plans.

The Health and Social Care Act 2012 extends the provisions for Trust Special Administration (TSA) to NHS foundation trusts. TSA is a regime for ensuring the continuity of essential services in the event of provider failure or financial distress. TSA can be used to address trusts such as these which are not able to achieve financial solvency.

Mid Staffordshire NHS Foundation Trust (MSFT) was found to be in significant breach of its terms of authorisation in March 2009. Since then there have been concerns about (i) the need to strengthen governance arrangements and (ii) considerable financial challenges. Following a number of reviews, MSFT invested heavily in improving quality of care. As a result the NHS foundation trust has remained financially challenged and Monitor appointed a Contingency Planning Team (CPT) to assess the sustainability of MSFT in October 2012. The CPT's interim report concluded that the trust was both clinically and financially unsustainable in its current form. In its final report the CPT proposed plans to reconfigure the services of the trust and recommended that this be done through the appointment of a Trust Special Administrator (TSA). In April 2013, Monitor appointed Trust Special Administrators to safeguard the provision of health services which should continue to be provided by Mid Staffordshire NHS Foundation Trust. The TSA is currently working on a proposed solution for the services currently provided by MSFT. The TSA will consult publicly later in the summer.

Peterborough and Stamford Hospitals NHS Foundation Trust was found to be in significant breach of its terms of authorisation in October 2011. Monitor has worked closely with the trust, along with commissioners and the Department of Health, to turn around its financial performance. In February 2013 Monitor appointed a CPT. The CPT is building on the work already undertaken to diagnose and

address the underlying financial issues at the trust and is working closely with patients' representatives, commissioners and clinicians in the local area to identify options to make the trust financially sustainable. Monitor published the CPT's sustainability report in early June 2013 which diagnosed the causes of the financial deficit as £22 million relating to estates and £18 million of operational issues (including inefficiency and unpaid activity) and found the trust to be clinically and operationally sustainable, but financially unsustainable in its current form. The CPT will shortly make an independent recommendation on the future configuration of services currently supplied by the trust to ensure that they are delivered on a sustainable basis.

Since 1 April 2013, NHS foundation trusts have been subject to the new licensing regime, which replaces NHS foundation trusts' terms of authorisation. Under the new licensing regime, 18 of the 19 trusts in significant breach of their terms of authorisation at 31 March 2013 have been subject to formal enforcement action. No formal enforcement action has been taken against Mid Staffordshire NHS Foundation Trust as it was placed in Trust Special Administration. Since the year end, Dorset Healthcare University NHS Foundation Trust became subject to formal enforcement action in April 2013.

Further details on Monitor's regulatory action can be found in the regulatory action section on our website.

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

The following internal control weaknesses were disclosed by NHS foundation trusts in their individual annual governance statements. The reported control weaknesses generally reflect Monitor's regulatory position for those NHS foundation trusts in significant breach of their terms of authorisation.

Weaknesses that are material in the context of the consolidation are included here; other, less significant weaknesses can be found in the annual governance statement of each individual NHS foundation trust.

#### *Use of resources*

In addition to the 'true and fair' audit opinion on the accounts, external auditors of NHS foundation trusts are required to confirm that the audit has been completed in accordance with the requirements of the National Health Service Act 2006. Auditors are required to issue a qualified certificate where they are unable to satisfy themselves in relation to all requirements set out in the audit scope section of the Audit Code. A qualified audit certificate does not imply that the 'true and fair' audit opinion on the NHS foundation trust's accounts is qualified. Full audit opinions are included in the annual report and accounts of the individual NHS foundation trusts and are not reported again here.

Fifteen NHS foundation trusts received qualified audit certificates from their external auditors for the year ended 31 March 2013 where the auditors were not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources:

- Basildon and Thurrock University Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in November 2009 as a result of serious concerns around patient safety and experience. There remain concerns, in the view of the auditor, on the trust exercising its functions effectively, efficiently and economically.
- Bolton NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in April 2012 for failing to meet healthcare targets and failings in relation to board governance. The trust failed to manage expenditure within available resources and deliver its cost improvement plans which has led it to a total deficit of £28.2million deficit for the year, including restructuring costs and impairments.
- Derby Hospitals NHS Foundation Trust: Monitor found the trust to be in significant breach of its terms of authorisation in January 2012 in respect of its duty to exercise its functions

economically, efficiently and effectively and its governance duty. Although the trust managed to operate with a financial risk rating of '3' during the year in line with their plan, the trust continued to operate with a 'red' governance risk rating at year end. The trust remained in significant breach at the year end due to continued failure to meet A&E targets and pending assurance regarding the robustness of the trust's 2013/14 financial plan.

- Dorset Healthcare University NHS Foundation Trust: Monitor identified the trust as having potentially breached its licence in April 2013 by failing to address issues over a period of time. Between August 2012 and March 2013, the CQC undertook nine inspections of locations and services run by the trust. In two locations, nine major concerns were identified in relation to the trust's compliance with the CQC Essential Standards of Quality and Safety. In response to these issues, Monitor secured binding agreement from the trust to review the corporate and quality governance arrangements of the trust. As a result, the auditors have been unable to satisfy themselves that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources.
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in July 2009 due to the trust facing considerable financial challenge, both now and in the future, which indicates the existence of material uncertainty which may, in the view of the auditor, cast significant doubt on its ability to continue as a going concern. The trust remained in significant breach of its terms of authorisation at the year end.
- Kettering General Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in October 2012 for financial and governance concerns including failure against health care targets. The trust's financial position deteriorated during 2012/13 with the trust's financial risk rating falling below plan. During the year, the trust has developed an action plan to develop its governance arrangements and financial recovery plan. Progress against this will be closely monitored during 2013/14.
- Medway NHS Foundation Trust: Monitor found the trust in significant breach of its authorisation in April 2011 in respect of its duty to exercise its functions economically, efficiently and effectively and its governance duty. This follows concerns over the trust's processes for financial planning. Monitor required the trust to achieve a year end outturn in line with the £1 million planned deficit and consistent achievement of FRR 3. The trust has reported an increased deficit of £1.945 million and remained in significant breach of its terms of authorisation.
- Mid Staffordshire NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in March 2009. A need to further strengthen governance arrangements was identified and there remain a number of financial challenges which indicate, in the view of the auditors, the existence of a material uncertainty which may cast doubt over the trust's ability to continue as a going concern. In April 2013 the trust was placed into Trust Special Administration.
- Peterborough and Stamford Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in October 2011 due to concerns around the trust's future financial viability and governance arrangements. There remain a number of financial challenges and in February 2013, Monitor appointed a CPT to report on the trust's clinical, operational and financial sustainability. In the view of the auditors, there is material uncertainty which may cast doubt on the ability of the trust to continue as a going concern. The trust remained in significant breach of its terms of authorisation at the year end.
- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in May 2012 due to concerns over the

trust's on-going financial sustainability. The trust is currently developing plans for the continuity of its services and anticipates that it will receive external financial support to ensure that it is properly resourced to the end of the period of transition.

- Sherwood Forest Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in October 2012 due to concerns over the trust's on-going financial sustainability and governance arrangements. During 2012/13 there have been a number of changes in individuals in senior positions in the trust. At the year end the trust remained in significant breach of its terms of authorisation.
- Tameside Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in March 2011 for failing to exercise its functions economically, efficiently and effectively and a significant breach of its governance duty due to financial stability concerns. The auditors have noted that the trust has made satisfactory progress against its recovery plan during 2012/13 but remained in breach of its terms of authorisation.
- The Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in January 2012 due to the trust's financial performance and concerns about financial governance. Although the trust improved a number of areas of financial governance, as at 31 March 2013, it was operating with a financial risk rating of '2' and remained in significant breach of its terms of authorisation.
- The Rotherham NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in February 2013 for failing its general duty to exercise functions economically, efficiently and effectively and a significant breach of its governance duty due to continued financial underperformance and failures in board governance. In March 2013 the trust issued a financial recovery plan to address its financial position and to develop the trust's governance and management arrangements. Although initial actions against this plan have been taken, as at 31 March 2013, the trust remained in significant breach of its terms of authorisation.
- University Hospitals of Morecambe Bay NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in respect of its governance duty, healthcare targets and requirement to exercise its functions economically, efficiently and effectively. The trust reported a deficit of £23.2 million in 2012/13 and has to deliver a material level of recurrent savings of £14 million through its Cost Improvement Programme in 2013/14 as part of a medium term recovery plan. As a result, the auditors were unable to satisfy themselves that the trust had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2012/13.

In all cases, the NHS foundation trusts' auditors have reported in their audit opinions on the accounts that the accounts themselves provide a 'true and fair' view of financial performance for the year.

#### *Financial standing*

Although the audit opinions are 'unqualified' there are seven trusts (Heatherwood and Wexham Park Hospitals NHS Foundation Trust; Mid Staffordshire NHS Foundation Trust; Milton Keynes Hospital NHS Foundation Trust; Peterborough and Stamford Hospitals NHS Foundation Trust; Royal National Hospital for Rheumatic Diseases NHS Foundation Trust; Sherwood Forest Hospitals NHS Foundation Trust; and The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust) where the auditors have included an 'emphasis of matter' paragraph within the audit opinion relating to going concern. These are set out in note 1 of the consolidated NHS Foundation Trust accounts.

The accounting officers of five NHS foundation trusts have disclosed significant control issues relating to financial standing for 2012/13 within the NHS foundation trusts' individual Annual Governance Statements:

- Heatherwood and Wexham Park Hospitals NHS Foundation Trust: the trust identified that it has been in significant breach of its terms of authorisation since July 2009 as a result of a rapid decline in its financial and operational performance. The trust has remained in significant breach of its terms of authorisation throughout 2012/13 and has operated with a financial risk rating of '1' and a 'red' governance risk rating throughout the year. The trust recognises that without significant reconfiguration, such as an acquisition or merger, the trust's long-term financial viability is at risk.
- Mid Staffordshire NHS Foundation Trust: the trust has been in significant breach since March 2009. Although the CPT confirmed that the trust is operationally sustainable, it is recognised and agreed that the trust is not clinically and financially sustainable in the long term. As a result of this, in April 2013, Monitor appointed Trust Special Administrators to safeguard the future of health services currently provided by the trust.
- Milton Keynes Hospital NHS Foundation Trust: the trust has been in significant breach of its terms of authorisation since March 2010 with a financial risk rating of '1' and a 'red' governance risk rating due to concerns over financial management and quality governance. The trust has recorded a deficit of £8.8 million for the year ended 31 March 2013 and the outlook presents significant challenges in terms of cash flow. External support has been commissioned to review existing savings plans, identify a full range of opportunities and support the delivery of savings. However the trust recognises a significant risk to delivery of required efficiencies from 2014/15 without structural change through a merger, joint working or other reconfiguration options.
- Peterborough and Stamford Hospitals NHS Foundation Trust: the trust has remained in significant breach of its terms of authorisation in 2012/13 with respect to three conditions: to exercise its functions economically, effectively and efficiently, its governance duty, and to remain a going concern. The trust will continue to work with the CPT and the outcomes of its reports to address the trust's current financial sustainability issues, and will work with the CPT to secure a viable and sustainable future for the trust's services.
- Sherwood Forest Hospitals NHS Foundation Trust: the trust was found in significant breach of its terms of authorisation in October 2012 as a result of financial and governance concerns. On review of external reports on finance and governance, the trust is responding to all recommendations made through a robust process and action plan and is committed to working proactively with its stakeholders to mitigate on-going financial concerns. As of 31 March 2013, the trust was operating with a financial risk rating of '1' and has a red governance risk rating due to these concerns.

In addition the accounting officers of Royal National Hospital for Rheumatic Diseases NHS Foundation Trust and The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust have disclosed risks relating to their financial standing in their Annual Governance Statements but have not disclosed significant control issues.

Six trusts (Bolton NHS Foundation Trust; Heatherwood and Wexham Park Hospitals NHS Foundation Trust; Mid Staffordshire NHS Foundation Trust; Milton Keynes Hospital NHS Foundation Trust; Peterborough and Stamford Hospitals NHS Foundation Trust; and University Hospitals of Morecambe Bay NHS Foundation Trust) have required financial support from the Department of Health in 2012/13 which they have received in the form of revenue Public Dividend Capital (PDC). These NHS foundation trusts will continue to need funding in 2013/14 while they develop long term plans to return themselves to financial sustainability. In addition, Royal National Hospital for Rheumatic Diseases NHS Foundation Trust received deficit funding support from NHS South in 2012/13 and will require PDC funding from the Department of Health in 2013/14.

## Quality governance

NHS foundation trusts are required to report on their quality governance arrangements in their annual governance statements. Trusts are advised to refer to Monitor's *Quality Governance Framework* for guidance on good practice in quality governance. Quality governance is the combination of structures and processes at and below board level to lead on trust wide quality performance including:

- ensuring required standards are achieved;
- investigating and taking action on sub-standard performance;
- planning and driving continuous improvement;
- identifying, sharing and ensuring delivery of best-practice; and
- identifying and managing risks to quality of care.

Individual NHS foundation trusts generally reported good practice and improvement in quality governance arrangements during 2012/13, including:

- establishment of quality performance reports and dashboards;
- undertaking internal and external review of quality governance framework compliance and developing plans to address any issues identified; and
- implementation of Quality Impact Assessments (QIAs) designed to assess and approve all efficiency schemes for the impact they have on clinical performance and ultimately patient care.

## Quality reports

In 2012/13 NHS foundation trusts were required to obtain a limited assurance report from their external auditor on the content of their quality report and two mandated indicators to be included in the quality report. This reported on whether anything has come to the attention of the auditor that led them to believe that the content of the quality report was not prepared in line with the requirements set out in the NHS Foundation Trust Annual Reporting Manual 2012/13 and is consistent with the other information sources detailed in the guidance.

All NHS foundation trusts received their limited assurance opinion in respect of the content and consistency of their quality reports. Four NHS foundation trusts did not receive a limited assurance opinion in respect of the mandated indicators:

- Cambridgeshire and Peterborough NHS Foundation Trust – the auditor was unable to form a conclusion on the Care Programme Approach (CPA) follow up and gate keeping indicators.
- Pennine Care NHS Foundation Trust – the auditor issued an adverse conclusion as, in their opinion, CPA follow ups had not been prepared in all material respects in accordance with the criteria.
- Royal Devon and Exeter NHS Foundation Trust – the auditor issued an adverse conclusion as, in their opinion, the percentage of patients receiving first definitive treatment for cancer within 62 days of an urgent GP referral indicator had not been prepared in all material respects in accordance with the criteria.
- South London and Maudsley NHS Foundation Trust – the auditor issued a qualified conclusion in respect of access to the crisis resolution indicator as the trust's interpretation of DH Technical Guidance and the Monitor Compliance Framework 2012/13, includes exemptions additional to those defined by Monitor which are specified within the trust's Quality Report as these are considered by the trust to be best clinical practice.

## Information governance

Information governance remains a significant area of internal control weakness for a number of NHS foundation trusts. A range of information governance incidents have been identified in the year and include:

- losses and thefts of laptop computers containing patient information;
- losses of computer memory sticks containing patient information;
- losses of paper medical records;
- accidental destruction of paper documents;
- unauthorised disclosure of confidential patient information; and
- non-compliance with the Information Governance Toolkit.

21 NHS foundation trusts reported serious instances in relation to data security in the year:

- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Bolton NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Cumbria Partnership NHS Foundation Trust
- County Durham and Darlington NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Guy's and St Thomas' Hospital NHS Foundation Trust
- The Hillingdon Hospitals NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Milton Keynes Hospital NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals NHS Foundation Trust
- Northumberland, Tyne & Wear NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Oxford Health NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- South London and Maudsley NHS Foundation Trust
- Somerset Partnership NHS Foundation Trust
- South West Yorkshire Partnership NHS foundation trust
- Taunton and Somerset NHS Foundation Trust

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

## Keogh Review

In February 2013, it was announced that nine NHS foundation trusts were to be among fourteen hospitals to be involved in the Keogh Review into mortality rates. The nine NHS foundation trusts identified as persistent outliers on mortality indicators and subject to the review process are:

- Basildon and Thurrock University Hospitals NHS Foundation Trust;
- Blackpool Teaching Hospitals NHS Foundation Trust;
- Burton Hospitals NHS Foundation Trust;
- Colchester Hospital University NHS Foundation Trust;
- Medway NHS Foundation Trust;
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust;
- Sherwood Forest Hospitals NHS Foundation Trust;



- Tameside Hospital NHS Foundation Trust; and
- The Dudley Group NHS Foundation Trust.

The investigations will seek to determine whether there are any persistent failings in the quality of care and treatment being provided to patients at these trusts. Professor Sir Bruce Keogh will publish a public report summarising the findings and actions resulting from the fourteen investigations by summer 2013.

Dr David Bennett  
Chair and Chief Executive  
2 July 2013

## **Independent auditor's report to Monitor**

I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2013. These comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As explained more fully in the Statement of Responsibilities and Accountability Framework, Monitor is responsible for the preparation of a set of accounts which consolidates the annual accounts of all NHS foundation trusts. My responsibility is to audit and express an opinion on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the consolidated accounts and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the 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 report.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS foundation trust sector as at 31 March 2013 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health and Social Care Act 2012.

### **Opinion on other matters**

In my opinion:

- the information given within the Annual Review, which comprises the 'Review of NHS foundation trust financial performance 2012/13', for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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

3 July 2013

## Consolidated Statement of Comprehensive Income

	Note	2012/13			2011/12 restated*		
		Before	Impairments	After	Before	Impairments	After
		impairments and gains from transfers by absorption	and gains from transfers by absorption	impairments and gains from transfers by absorption	impairments	Impairments	impairments
		£m	£m	£m	£m	£m	£m
Operating Income	3,4,13,18	38,852	89	38,941	35,789	139	35,928
Operating Expenses	6,13,18	(37,559)	(705)	(38,264)	(34,576)	(502)	(35,078)
<b>Operating surplus / (deficit)</b>		<b>1,293</b>	<b>(616)</b>	<b>677</b>	<b>1,213</b>	<b>(363)</b>	<b>850</b>
<b>Finance costs</b>							
Finance income	11	32		32	29		29
Finance expense - financial liabilities	12	(379)		(379)	(357)		(357)
Finance expense - unwinding of discount on provisions	26.2	(6)		(6)	(6)		(6)
PDC Dividends payable		(457)		(457)	(445)		(445)
<b>Net finance costs</b>		<b>(810)</b>		<b>(810)</b>	<b>(779)</b>		<b>(779)</b>
Share of Profit of Associates/Joint Ventures accounted for using the equity method		3		3	3		3
Gains arising from transfer by absorption	37	0	191	191	0		0
Movement in fair value of investment property and other investments	16.1	1		1	2		2
Corporation tax expense		0		0	0		0
<b>Surplus/(deficit) for the year</b>		<b>487</b>	<b>(425)</b>	<b>62</b>	<b>439</b>	<b>(363)</b>	<b>76</b>
<b>Other comprehensive income / (expenditure)</b>							
Net impairments charged to reserves		0	(331)	(331)	0	(265)	(265)
Revaluations		216		216	307		307
Movements arising from classifying non current assets as held for sale		0		0	1		1
Other recognised gains and losses		1		1	2		2
Actuarial gains/(losses) on defined benefit pension schemes	35.1	(3)		(3)	(3)		(3)
Other reserve movements		(2)		(2)	1		1
<b>Total other comprehensive income / (expense)</b>		<b>212</b>	<b>(331)</b>	<b>(119)</b>	<b>308</b>	<b>(265)</b>	<b>43</b>
<b>Total comprehensive income / (expense) for the period</b>		<b>699</b>	<b>(756)</b>	<b>(57)</b>	<b>747</b>	<b>(628)</b>	<b>119</b>

The notes on pages 29 to 77 form part of these accounts.

\*The 2011/12 amount for the movement in fair value of investment property has been extracted from operating expenses. More detail is provided in note 6.1.

**Consolidated Statement of Financial Position**  
**Year ended 31 March**

		31 March 2013	31 March 2012
	Note	£m	£m
<b>Non-current assets</b>			
Intangible assets	14	239	198
Property, plant and equipment	15	21,555	21,308
Investment Property	16	60	59
Investments in associates (and jointly controlled operations)	16	15	7
Other Investments	16	0	0
Trade and other receivables	20	200	218
Other Financial assets	21	1	4
Other assets		5	4
<b>Total non-current assets</b>		<b>22,075</b>	<b>21,798</b>
<b>Current assets</b>			
Inventories	19	460	438
Trade and other receivables	20	1,597	1,455
Other financial assets	21	37	44
Non-current assets for sale and assets in disposal groups	22	114	116
Cash and cash equivalents	23	4,483	3,947
<b>Total current assets</b>		<b>6,691</b>	<b>6,000</b>
<b>Current liabilities</b>			
Trade and other payables	24	(3,844)	(3,458)
Borrowings	25	(218)	(214)
Other financial liabilities		(1)	(1)
Provisions	26	(344)	(282)
Other Liabilities	27	(490)	(554)
<b>Total current liabilities</b>		<b>(4,897)</b>	<b>(4,509)</b>
<b>Total assets less current liabilities</b>		<b>23,869</b>	<b>23,289</b>
<b>Non-current liabilities</b>			
Trade and other payables	24	(28)	(30)
Borrowings	25	(5,430)	(5,347)
Other financial liabilities		(4)	(2)
Provisions	26	(260)	(259)
Other liabilities	27	(194)	(154)
<b>Total non-current liabilities</b>		<b>(5,916)</b>	<b>(5,792)</b>
<b>Total assets employed</b>		<b>17,953</b>	<b>17,497</b>
<b>Financed by (taxpayers' equity)</b>			
Public Dividend Capital		12,728	12,324
Revaluation reserve		4,173	4,249
Other reserves		88	84
Merger reserve		1	1
Income and expenditure reserve		963	839
<b>Total taxpayers' equity</b>		<b>17,953</b>	<b>17,497</b>

The notes on pages 29 to 77 form part of these accounts.

Dr David Bennett  
Chair and Chief Executive  
2 July 2013

## Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2013

	Public Dividend Capital	Revaluation Reserve	Other Reserves	Merger Reserve	Income and Expenditure Reserve	Total
	£m	£m	£m	£m	£m	£m
<b>Taxpayers' Equity at 1 April 2012</b>	<b>12,324</b>	<b>4,249</b>	<b>84</b>	<b>1</b>	<b>839</b>	<b>17,497</b>
<b>At start of period for new FTs</b>	<b>219</b>	<b>76</b>	<b>5</b>	<b>0</b>	<b>38</b>	<b>338</b>
Transfers under absorption accounting (see note 37)	0	51	0	0	(51)	0
Adjustments to prior period accounted for in-year (see note 36)	0	7	0	0	(17)	(10)
Surplus/(deficit) for the year	0	0	0	0	62	62
Transfers between reserves	0	(53)	0	0	53	0
Impairments	0	(331)	0	0	0	(331)
Revaluations - property, plant and equipment	0	217	0	0	0	217
Revaluations - intangible assets	0	(1)	0	0	0	(1)
Asset disposals	0	(20)	0	0	20	0
Movement arising from classifying non current assets as Assets Held for Sale	0	0	0	0	0	0
Other recognised gains and losses	0	(12)	0	0	13	1
Actuarial gains/(losses) on defined benefit pension schemes	0	0	(1)	0	(2)	(3)
Public Dividend Capital received	187	0	0	0	0	187
Public Dividend Capital repaid	(2)	0	0	0	0	(2)
Public Dividend Capital written off	0	0	0	0	0	0
Other reserve movements	0	(10)	0	0	8	(2)
<b>Taxpayers' Equity at 31 March 2013</b>	<b>12,728</b>	<b>4,173</b>	<b>88</b>	<b>1</b>	<b>963</b>	<b>17,953</b>

## Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2012

	Public Dividend Capital	Revaluation Reserve	Other Reserves	Merger Reserve	Income and Expenditure Reserve	Total
	£m	£m	£m	£m	£m	£m
<b>Taxpayers' Equity at 1 April 2011</b>	<b>11,672</b>	<b>4,169</b>	<b>81</b>	<b>0</b>	<b>417</b>	<b>16,339</b>
TCS and merger adjustments	0	0	0	0	9	9
<b>Taxpayers' Equity at 1 April 2011 (post TCS adjustments)</b>	<b>11,672</b>	<b>4,169</b>	<b>81</b>	<b>0</b>	<b>426</b>	<b>16,348</b>
<b>At start of period for new FTs</b>	<b>549</b>	<b>130</b>	<b>3</b>	<b>0</b>	<b>245</b>	<b>927</b>
Surplus/(deficit) for the year	0	0	0	0	76	76
Transfers between reserves	0	(42)	0	0	42	0
Impairments	0	(265)	0	0	0	(265)
Revaluations - property, plant and equipment	0	307	0	0	0	307
Revaluations - intangible assets	0	0	0	0	0	0
Asset disposals	0	(34)	0	0	34	0
Movement arising from classifying non current assets as Assets Held for Sale	0	0	0	0	1	1
Other recognised gains and losses	0	(1)	0	0	3	2
Actuarial gains/(losses) on defined benefit pension schemes	0	0	0	0	(3)	(3)
Public Dividend Capital received	104	0	0	0	0	104
Public Dividend Capital repaid	(1)	0	0	0	0	(1)
Public Dividend Capital written off	0	0	0	0	0	0
Other reserve movements	0	(15)	0	1	15	1
<b>Taxpayers' Equity at 31 March 2012</b>	<b>12,324</b>	<b>4,249</b>	<b>84</b>	<b>1</b>	<b>839</b>	<b>17,497</b>

## **Information on reserves**

### Public Dividend Capital

Public dividend capital is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as Public Dividend Capital Dividend.

### Revaluation Reserve

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are recognised in operating income.

### Other Reserves

This reserve reflects balances formed on the creation of predecessor NHS bodies and adjustments to Public Dividend Capital.

### Merger Reserve

This reserve reflects balances formed on merger of NHS bodies.

### Income and Expenditure Reserve

The balance of this reserve is the accumulated surplus and deficits of the NHS foundation trust sector.

## Consolidated Statement of Cash Flows

	2012/13	2011/12
	£m	£m
<b>Cash flows from operating activities</b>		
<b>Operating surplus/(deficit)</b>	<b>677</b>	<b>850</b>
<b>Non-cash income and expense</b>		
Depreciation and amortisation	1,122	1,019
Impairments	705	502
Reversals of impairments	(89)	(139)
(Gain)/Loss on disposal	14	0
Non-cash donations/grants credited to income	(12)	(6)
Interest accrued and not paid	0	1
Dividends accrued and not paid or received	3	2
(Increase)/Decrease in Trade and Other Receivables	(75)	(42)
(Increase)/Decrease in Other Assets	0	9
(Increase)/Decrease in Inventories	(14)	(11)
Increase/(Decrease) in Trade and Other Payables	261	383
Increase/(Decrease) in Other Liabilities	(24)	(8)
Increase/(Decrease) in Provisions	42	57
Other movements in operating cash flows	0	(16)
<b>Net cash generated from/(used in) operations</b>	<b>2,610</b>	<b>2,601</b>
<b>Cash flows from investing activities</b>		
Interest received	32	27
Purchase of financial assets	(1,004)	(1,162)
Sales of financial assets	1,014	1,154
Purchase of intangible assets	(82)	(57)
Sales of intangible assets	0	0
Purchase of Property, Plant and Equipment	(1,566)	(1,385)
Sales of Property, Plant and Equipment	76	75
Cash from acquisitions and disposals of business units and subsidiaries	(9)	1
<b>Net cash generated from/(used in) investing activities</b>	<b>(1,539)</b>	<b>(1,347)</b>
<b>Cash flows from financing activities</b>		
Public dividend capital received	187	104
Public dividend capital repaid	(2)	(1)
Loans received from the Department of Health and Foundation Trust Financing Facility (FTFF)	260	218
Other loans received	3	30
Loans repaid to the Department of Health and FTFF	(84)	(46)
Other loans repaid	(6)	(4)
Capital element of finance lease rental payments	(39)	(19)
Other capital receipts	3	6
Capital element of Private Finance Initiative Obligations	(91)	(87)
Interest paid	(37)	(30)
Interest element of finance lease	(9)	(8)
Interest element of Private Finance Initiative obligations	(321)	(310)
PDC Dividend paid	(460)	(456)
Cash flows from (used in) other financing activities	(7)	(3)
<b>Net cash generated from/(used in) financing activities</b>	<b>(603)</b>	<b>(606)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>468</b>	<b>648</b>
<b>Cash and Cash equivalents at 1 April</b>	<b>3,934</b>	<b>3,234</b>
<b>Cash and Cash equivalents at start of period for new FTs</b>	<b>78</b>	<b>52</b>
Cash and cash equivalents changes due to transfers by absorption	(1)	0
<b>Cash and Cash equivalents at 31 March</b>	<b>4,479</b>	<b>3,934</b>

The Statement of Cash Flows is reconciled to the Statement of Financial Position in note 23.



## Notes to the accounts

### Note 1 Accounting policies and other information

Paragraph 17 of Schedule 8 of the Health and Social Care Act 2012 requires Monitor to prepare a consolidated set of accounts for NHS foundation trusts. Monitor has produced a consolidated account of NHS foundation trusts, prepared in accordance with the accounting requirements in the *NHS Foundation Trust Annual Reporting Manual 2012/13* (FT ARM).

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

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

#### Accounting convention

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

#### 1.1 Consolidation

##### Basis of consolidation

These accounts aggregate the accounts of all NHS foundation trusts using the principles of IFRS as adopted by the FReM. It presents the consolidated results of the NHS foundation trust sector after the elimination of inter-NHS foundation trust balances and transactions. Monitor is not the parent undertaking for NHS foundation trusts and its results are not incorporated within these accounts. The accounts for Monitor are laid before Parliament separately.

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

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

##### Machinery of government changes in 2012/13

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

For property, plant and equipment assets and intangible assets, the cost and accumulated depreciation and amortisation balances from the transferring entity's accounts are preserved on recognition in the NHS foundation trust accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the NHS foundation trust makes a transfer from its income and expenditure reserve to its revaluation reserve.

Where functions are transferred to another NHS or local government body, the assets and liabilities transferred are derecognised from the accounts as at the date of transfer and prior year comparatives are not restated. The net loss / gain corresponding to the net assets / liabilities transferred is

recognised within non-operating income/expenditure. Any revaluation reserve balances attributable to assets de-recognised are transferred to the income and expenditure reserve.

This policy applies to transfers on or after 1 April 2012 and is not applied retrospectively to transfers occurring before this date.

Other transfers from within the WGA boundary (that are not within the Department of Health Group or with a local authority) are accounted for using merger accounting in line with the FReM. There are no such transactions for NHS foundation trusts in 2012/13.

#### Machinery of government changes in 2011/12

In line with the 2011/12 HM Treasury FReM and FT Annual Reporting Manual, in 2011/12 all machinery of government combinations were accounted for using merger accounting. As such, the 2011/12 Statement of Comprehensive Income contains the full year income and expenditure of the combined entities. More details are provided in notes 36 and 37.

Transforming community services (TCS) transactions occurring in 2011/12 met the definition of a 'machinery of government' change and were accounted for using merger accounting principles. Prior year comparatives were not restated for these transactions following a dispensation provided by HM Treasury's Financial Reporting Advisory Board (FRAB) in December 2011 and merger accounting was applied from 1 April 2011 for TCS transactions in 2011/12.

#### Other business combinations

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

#### **Subsidiaries**

Subsidiary entities are those over which an NHS foundation trust has the power to exercise control or a dominant influence so as to gain economic or other benefits. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated, in full, into the appropriate financial statement lines. The capital and reserves attributable to minority interests are included as a separate item in the Statement of Financial Position.

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

Where a subsidiary's accounting policies are not aligned with those of the NHS foundation trust (including where they report under UK GAAP) amounts are adjusted during consolidation where the differences are material. Subsidiaries classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

HM Treasury's Financial Reporting Advisory Board has issued an exemption for NHS bodies from applying the principles of International Accounting Standard 24 to their charitable funds until 1 April 2013.

#### **Associates**

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

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

#### **Joint ventures**

Joint ventures are separate entities over which an NHS foundation trust has joint control with one or more other parties. The meaning of control is the same as that for subsidiaries.

Joint ventures are accounted for using either the equity method, as described above, or proportionate consolidation, accounting for the NHS foundation trust's share of the transactions, assets, liabilities, equity and reserves of the entity. Joint ventures classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

### **Jointly controlled operations**

Jointly controlled operations are activities carried out with one or more other parties but which are not performed through a separate entity. An NHS foundation trust's share of the activities, assets and liabilities of these joint operations are included in these financial statements.

## **1.2 Income**

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the trust is contracts with commissioners in respect of healthcare services.

Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred. Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

## **1.3 Expenditure on employee benefits**

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

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

### **Pension costs**

#### *NHS Pension Scheme*

Past and present employees are covered by the provisions of the NHS Pension Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies allowed under the direction of the Secretary of State, in England and Wales. It is not possible for the NHS foundation trust sector to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme. Employer pension cost contributions are charged to operating expenses as and when they become due.

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

#### *Local Government Pension Scheme*

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

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

Actuarial gains and losses during the year are recognised as 'other comprehensive income' in the Statement of Comprehensive Income.

Where the NHS foundation trust is unable to identify its share of the underlying scheme liabilities these are accounted for as defined contribution pension schemes ('off Statement of Financial Position').

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

<b>Trust</b>	<b>Pension Fund</b>	<b>Administering body</b>
Black Country Partnership NHS Foundation Trust	West Midlands Pension Fund	Wolverhampton City Council
Southern Health NHS Foundation Trust	Hampshire Pension Fund Wiltshire Pension Fund	Hampshire County Council Wiltshire Council
Oxford Health NHS Foundation Trust	Buckinghamshire County Council Pension Fund	Buckinghamshire County Council
Rotherham Doncaster and South Humber NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
South Staffordshire and Shropshire Healthcare NHS Foundation Trust	Staffordshire Pension Fund	Staffordshire County Council
Sheffield Health and Social Care NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
South Essex Partnership NHS Foundation Trust	Bedfordshire Pension Fund	Bedford Borough Council

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

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

#### *Other pension schemes*

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

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

#### **1.4 Expenditure on other goods and services**

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

#### **1.5 Discontinued operations**

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

## 1.6 Property, plant and equipment

### Recognition

Property, plant and equipment is capitalised where:

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

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

### Measurement

#### Valuation

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

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

All land and buildings are valued every five years to ensure the fair value is not misstated. Valuations are carried out by professional valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the FT ARM. Interim revaluations are also carried out as necessary to ensure that the carrying amount of each asset does not differ materially from its fair value at the Statement of Financial Position date.

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

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

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

Net Book Value	Land	Buildings excluding dwellings	Dwellings
	£m	£m	£m
Modern Equivalent Asset (no alternative site)	1,921	10,541	127
Modern Equivalent Asset (alternative site)	750	4,051	34
Other Professional Valuations	465	787	38
<b>Total</b>	<b>3,136</b>	<b>15,379</b>	<b>199</b>

### Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure which does not generate additional

future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

### **Depreciation**

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

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

### **Revaluation gains and losses**

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation decrease that has previously been recognised in operating expenses. In such cases, they are recognised in operating income.

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

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

### **Impairments**

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

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

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

### **De-recognition**

Assets intended for disposal are reclassified as 'held for sale' once all the following criteria are met:

- the asset is available for immediate sale in its present condition, subject only to terms which are usual and customary for such sales; and
- the sale must be highly probable i.e.:
  - management is committed to a plan to sell the asset;
  - an active programme has begun to find a buyer and complete the sale;
  - the asset is being actively marketed at a reasonable price;
  - the sale is expected to be completed within 12 months of the date of classification as 'held for sale'; and
  - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met. Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'held for sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

### **Donated assets**

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

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

### **Private Finance Initiative (PFI) transactions**

PFI transactions which meet the IFRS Interpretations Committee (IFRIC) 12 definition of a service concession, as interpreted in the FReM, are accounted for as 'on-Statement of Financial Position' by NHS foundation trusts.

The underlying assets are recognised as property, plant and equipment at their fair value. An equivalent financial liability is recognised in accordance with International Accounting Standard (IAS) 17.

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

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Statement of Comprehensive Income.

### **Useful Economic Lives of Property, Plant and Equipment**

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

	<b>Min Life Years</b>	<b>Max Life Years</b>
Land	1	Infinite
Buildings, excluding dwellings	1	188
Dwellings	1	99
Assets under construction	1	90
Plant & machinery	1	70
Transport equipment	1	21
Information technology	1	15
Furniture & fittings	1	37

## **1.7 Intangible assets**

### **Recognition**

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

### **Internally generated intangible assets**

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

Expenditure on research is not capitalised.

Expenditure on development is capitalised only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- the NHS foundation trust incurring the expense intends to complete the asset and sell or use it;
- the NHS foundation trust has the ability to sell or use the asset;
- how the intangible asset will generate probable future economic or service delivery benefits e.g. the presence of a market for it or its output, or where it is to be used for internal use, the usefulness of the asset;
- adequate financial, technical and other resources are available to the NHS foundation trust to complete the development and sell or use the asset; and
- the NHS foundation trust carrying out the development can measure reliably the expenses attributable to the asset during development.

### Software

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

### Measurement

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

Subsequently, intangible assets are measured at fair value. Revaluation gains and losses and impairments are treated in the same manner as for property, plant and equipment.

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

### Amortisation

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

### Useful economic life of intangible assets

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

	Min life (years)	Max life Years
<b>Intangible assets - internally generated</b>		
Information technology	1	15
Development expenditure	1	8
Other	1	8
<b>Intangible assets - purchased</b>		
Software	1	20
Licences & trademarks	1	15
Patents	3	8
Other	1	8
Goodwill	3	8

## 1.8 Investment properties

Investment properties are measured at fair value. Changes in fair value are recognised as revenue gains or losses.

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



## 1.9 Government grants

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

## 1.10 Inventories

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

## 1.11 Financial instruments and financial liabilities

### Recognition

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

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

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

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

### De-recognition

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

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

### Classification and measurement

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

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

### Financial assets and financial liabilities at 'Fair Value through Income and Expenditure'

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

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

### **Loans and receivables**

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

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

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

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

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

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

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

### **Financial liabilities**

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

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

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

### **Determination of fair value**

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

### **Impairment of financial assets**

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

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

## 1.12 Cash and cash equivalents

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

## 1.13 Leases

### **Finance leases**

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

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

### **Operating leases**

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

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

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

## 1.14 Provisions

The NHS foundation trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount for which it is probable that there will be a future outflow of cash or other resources and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rates effective for 2012/13.

		Real rate
Short-term	Up to 5 years	-1.8%
Medium-term	After 5 years up to 10 years	-1.0%
Long-term	Exceeding 10 years	2.2%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 2.35% in real terms.

### **Clinical negligence costs**

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed at Note 26.3.

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

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

### **1.15 Contingencies**

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 34 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 34, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

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

### **1.16 Public dividend capital**

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32. A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by the Secretary of State with the consent of HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets, (ii) net cash balances held with the Government Banking Services (GBS), excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the 'pre-audit' version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the NHS foundation trusts' annual accounts.

### **1.17 Value Added Tax**

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### **1.18 Corporation tax**

The Finance Act 2004 amended S519A Income and Corporation Taxes Act 1998 to provide power to HM Treasury to make certain non-core activities of NHS foundation trusts potentially subject to corporation tax.

NHS foundation trusts may also incur corporation tax liabilities through subsidiaries which are consolidated into their financial statements.

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

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

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

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no

longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are not discounted.

### **1.19 Foreign exchange**

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

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

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

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

Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

### **1.20 Third party assets**

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

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 41 to the accounts).

### **1.21 Losses and special payments**

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

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

### **1.22 Going concern**

Monitor has prepared these consolidated accounts on a going concern basis which reflects the basis on which the underlying NHS foundation trust accounts have been prepared.

There are seven NHS foundation trusts where the auditors of those NHS foundation trusts have included an emphasis of matter within their audit opinions to draw attention to the going concern disclosure included within those accounts. These seven NHS foundation trusts are Heatherwood and Wexham Park Hospitals NHS Foundation Trust, Mid Staffordshire NHS Foundation Trust, Milton Keynes Hospital NHS Foundation Trust, Peterborough and Stamford Hospitals NHS Foundation Trust, Royal National Hospital for Rheumatic Diseases NHS Foundation Trust, Sherwood Forest Hospitals NHS Foundation Trust, and The Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust. All of these accounts have been prepared on a going concern basis and have received unqualified audit opinions.

### 1.23 Early adoption of standards, amendments and interpretations

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

### 1.24 Standards, amendments and interpretations in issue but not yet effective or adopted

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

The following have not been adopted early in these accounts:

- IAS 1 Presentation of financial statements, on other comprehensive income (OCI): Effective date of 2013/14 under EU and HM Treasury adoption.
- IAS 12 (Revised 2010) Income Taxes: Effective date of 2013/14 under EU and HM Treasury adoption.
- IAS 19 (Revised 2011) Employee Benefits: Effective date of 2013/14 under EU and HM Treasury adoption.
- IFRS 7 Financial Instruments: Disclosures – amendment for offsetting financial assets and liabilities: Effective date of 2013/14 under EU adoption.
- IFRS 10 Consolidated Financial Statements: Effective date of 2014/15 under EU adoption.
- IFRS 11 Joint Arrangements: Effective date of 2014/15 under EU adoption.
- IFRS 12 Disclosure of Interests in Other Entities: Effective date of 2014/15 under EU adoption.
- IFRS 13 Fair Value Measurement: Effective date of 2013/14 under EU adoption, however this Standard is unlikely to be adopted by HM Treasury until 2014/15.
- IAS 27 Separate Financial Statements: Effective date of 2014/15 under EU adoption.
- IAS 28 Associates and joint ventures: Effective date of 2014/15 under EU adoption.
- IAS 32 Financial Instruments: Presentation - amendment for offsetting financial assets and liabilities: Effective date of 2014/15 under EU adoption.
- IFRS 9 Financial Instruments: The effective date is for accounting periods beginning on, or after 1 January 2015. The timing for EU adoption is uncertain.

None of these new or amended standards and interpretations are anticipated to have future material impact on the financial statements of the consolidated NHS Foundation Trust accounts.

## Note 2 Operating segments

The NHS foundation trust sector is formed of four types of NHS foundation trust, providing different services:

- acute – provision of general acute healthcare;
- ambulance – provision of ambulance services;
- mental health – provision of specialist mental health services; and
- specialist – provision of other specialist treatment and services.

Monitor does not allocate resources between these segments; however this is the basis on which the performance of the foundation trust sector is reported to Monitor's Board.

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

The figures reported below include inter-NHS foundation trust income and expenditure. These are removed in reconciling to the Statement of Comprehensive Income below.

2012/13	Acute £m	Ambulance £m	Mental Health £m	Specialist £m	Total £m
Income (less impairment reversals and gains from transfers by absorption)	27,935	629	8,105	2,805	39,474
Expenditure before depreciation and impairment	(26,262)	(580)	(7,659)	(2,558)	(37,059)
Depreciation and amortisation	(845)	(32)	(141)	(104)	(1,122)
Impairments (net of reversals)	(399)	(8)	(134)	(75)	(616)
Net finance costs	(629)	(7)	(137)	(37)	(810)
Gains/(losses) from transfers by absorption	140	35	16	0	191
Other	2	0	0	2	4
<b>Surplus / (deficit) for the year</b>	<b>(58)</b>	<b>37</b>	<b>50</b>	<b>33</b>	<b>62</b>

2011/12	Acute £m	Ambulance £m	Mental Health £m	Specialist £m	Total £m
Income (less impairment reversals)	25,669	354	8,007	2,327	36,357
Expenditure before depreciation and impairment	(24,113)	(323)	(7,568)	(2,120)	(34,124)
Depreciation and amortisation	(786)	(19)	(132)	(83)	(1,020)
Impairments (net of reversals)	(201)	(2)	(130)	(28)	(361)
Net finance costs	(606)	(4)	(138)	(31)	(779)
Other	(1)	0	0	4	3
<b>Surplus / (deficit) for the year</b>	<b>(38)</b>	<b>6</b>	<b>39</b>	<b>69</b>	<b>76</b>

Reconciliation to Statement of Comprehensive Income	2012/13 £m	2011/12 £m
<b>Operating income before impairments and inter FT adjustments</b>	39,474	36,357
Less: Inter FT income adjustment	(622)	(568)
<b>Operating income before impairments and gains from transfers by absorption</b>	<b>38,852</b>	<b>35,789</b>
Operating expenditure before depreciation and impairment	37,059	34,124
Depreciation	1,122	1,020
<b>Operating expenditure before impairments and inter FT adjustments</b>	<b>38,181</b>	<b>35,144</b>
Less Inter FT expenditure adjustment	(622)	(568)
<b>Operating expenditure before impairments and gains from transfers by absorption</b>	<b>37,559</b>	<b>34,576</b>
<b>Operating surplus before impairments and gains from transfers by absorption</b>	<b>1,293</b>	<b>1,213</b>

### Note 3 Operating income - by activity

Income from Activities	2012/13 £m	2011/12 £m
<b>Acute Trusts</b>		
Elective income	5,235	5,045
Non-elective income	6,631	6,290
Outpatient income	4,434	4,093
A & E income	841	751
Other NHS clinical income	8,027	6,903
<b>Mental Health Trusts</b>		
Cost and Volume Contract income	398	429
Block Contract income	5,419	5,258
Clinical Partnerships providing mandatory services (including S31 agreements)	182	199
Clinical income for the Secondary Commissioning of mandatory services	28	52
Other clinical income from mandatory services	178	184
<b>Ambulance Trusts</b>		
A&E income	496	289
PTS income	54	23
Other income	47	26
<b>Community Trusts (and any Trusts providing Community Services)</b>		
Income from PCTs	2,017	1,840
Income not from PCTs	69	63
<b>All Trusts</b>		
Private patient income	358	283
Other non-protected clinical income	287	261
<b>Total income from activities</b>	<b>34,701</b>	<b>31,989</b>
<b>Other operating income</b>		
Research and development	565	465
Education and training	1,516	1,396
Donations, grants, charitable and other contributions recognised as income in the period	175	130
Non-patient care services to other bodies	629	617
Other	1,147	1,069
Profit on disposal of assets	11	14
Reversal of impairments	89	139
Amortisation of PFI deferred credits	1	1
Income in respect of staff costs where accounted on gross basis	107	108
<b>Total other operating income</b>	<b>4,240</b>	<b>3,939</b>
<b>TOTAL OPERATING INCOME</b>	<b>38,941</b>	<b>35,928</b>



### Note 3.2 Private patient income

The statutory limitation on private patient income in section 44 of the 2006 Act was repealed with effect from 1 October 2012 by the Health and Social Care Act 2012. The financial statements disclosures that were provided previously are no longer relevant.

### Note 4 Operating Income - by source

	2012/13	2011/12
	£m	£m
<b>Income from activities</b>		
NHS Trusts	75	73
Strategic Health Authorities	435	329
Primary Care Trusts	32,871	30,108
Local Authorities	480	520
Department of Health - grants	7	5
Department of Health - other	8	8
NHS Other	128	352
Non-NHS: Private patients	351	275
Non-NHS: Overseas patients (non-reciprocal)	20	13
NHS injury cost recovery scheme	105	109
Non-NHS: Other	221	197
<b>Total income from activities</b>	<b>34,701</b>	<b>31,989</b>
<b>Other operating income (see detail provided in note 3)</b>		
Total other operating income	4,240	3,939
<b>TOTAL OPERATING INCOME</b>	<b>38,941</b>	<b>35,928</b>

## Note 5.1 Operating lease income

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

	2012/13	2011/12
	£m	£m
<b>Operating Lease Income</b>		
Rents recognised as income in the period	36	35
Contingent rents recognised as income in the period	2	1
Other income recognised in the period	2	0
<b>TOTAL</b>	<b>40</b>	<b>36</b>
<b>Future minimum lease payments due</b>		
On leases of Land expiring		
- not later than one year;	3	2
- later than one year and not later than five years;	7	5
- later than five years.	107	78
	<b>117</b>	<b>85</b>
On leases of Buildings expiring		
- not later than one year;	22	21
- later than one year and not later than five years;	65	62
- later than five years.	94	97
	<b>181</b>	<b>180</b>
On other leases expiring		
- not later than one year;	2	1
- later than one year and not later than five years;	1	1
- later than five years.	0	1
	<b>3</b>	<b>3</b>
<b>TOTAL</b>	<b>301</b>	<b>268</b>

## Note 5.2 Arrangements containing an operating lease

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

	2012/13	2011/12
	£m	£m
Minimum lease payments	312	298
Contingent rents	1	0
Less sublease payments received	(2)	(2)
<b>TOTAL</b>	<b>311</b>	<b>296</b>
<b>Future minimum lease payments due:</b>		
- not later than one year;	258	226
- later than one year and not later than five years;	459	404
- later than five years.	512	434
<b>TOTAL</b>	<b>1,229</b>	<b>1,064</b>
Total of future minimum sublease lease receipts to be received at the date of the Statement of Financial Position	5	2

## Note 6.1 Operating expenses

	2012/13	2011/12 restated
	£m	£m
Services from NHS Trusts	187	181
Services from Primary Care Trusts	139	150
Services from other NHS Bodies	58	72
Purchase of healthcare from non NHS bodies	310	293
Employee Expenses - Executive directors	142	138
Employee Expenses - Non-executive directors	19	18
Employee Expenses - Staff	24,311	22,699
Drug costs	2,805	2,367
Supplies and services - clinical (excluding drug costs)	2,902	2,877
Supplies and services - general	678	653
Establishment	537	534
Research and development	183	87
Transport	181	157
Premises	1,778	1,734
Increase / (decrease) in provision for impairment of receivables	29	54
Increase in other provisions	12	21
Inventories write down	5	2
Inventories consumed	281	46
Depreciation on property, plant and equipment	1,068	977
Amortisation on intangible assets	54	42
Impairments of property, plant and equipment, intangible assets, investment property and assets held for sale ***	705	502
Audit fees *		
audit services- statutory audit	10	11
audit services -regulatory reporting	1	1
Other auditors' remuneration **	8	4
Clinical negligence	502	446
Loss on disposal of assets	25	11
Legal fees	52	46
Consultancy costs	194	176
Training, courses and conferences	141	109
Patient travel	25	23
Car parking & Security	14	13
Redundancy	114	127
Early retirements	7	6
Hospitality	4	3
Publishing	2	1
Insurance	30	26
Other services, eg external payroll	67	57
Grossing up consortium arrangements	10	16
Losses, ex gratia & special payments	19	17
Other	655	381
<b>Total Operating Expenses</b>	<b>38,264</b>	<b>35,078</b>

\* These are the audit fees disclosed by NHS foundation trusts and do not include the audit fee payable to the National Audit Office in respect of these consolidated NHS Foundation Trust accounts. This fee is accounted for within Monitor's own accounts which are presented separately to Parliament. This fee is £73,200 (2011/12: £73,200).

\*\* In 2012/13 the analysis categories for other auditors' remuneration have changed. This is disclosed in note 6.2. This reanalysis has caused some NHS foundation trusts to identify amounts included in this line in 2011/12 that were not

payable to the external auditor. Due to the effect of rounding to £ millions, an amount of £2 million has been reclassified from the other auditor remuneration expenditure line for 2011/12 into other expenditure.

\*\*\* In the 2011/12 NHS Foundation Trust consolidated accounts fair value gains and losses on investment properties were included within the impairments line in this note. These have now been shown separately in the Statement of Comprehensive Income. As a result a gain of (2) has been removed from the 2011/12 impairments figure here.

## Note 6.2 Other auditors' remuneration

Other auditor remuneration is made up as follows:

	2012/13	2011/12 restated
	£m	£m
1. The auditing of accounts of any associate of the Trust;	0	0
2. Audit-related assurance services;	1	1
3. Taxation compliance services;	0	0
4. All taxation advisory services not falling within item 3 above;	0	0
5. internal audit services;	0	0
6. All assurance services not falling within items 1 to 5;	1	0
7. Corporate finance transaction services not falling within items 1 to 6 above; and	0	0
8. All other non-audit services not falling within items 2 to 7 above	6	3
<b>TOTAL</b>	<b>8</b>	<b>4</b>

The comparative analysis of non-audit fees payable to the external auditors of NHS foundation trusts has been restated in line with the amendments to the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489).

## Note 6.3 Limitation on auditors' liability

92 (2011/12: 74) NHS foundation trusts have a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit in 2012/13 ranges between £0.5 million to £10 million (2011/12: £0.5 million to £5 million).

## Note 7.1 Staff costs

	Permanent	Other	2012/13 Total	2011/12 Total
	£m	£m	£m	£m
Salaries and wages	19,083	654	19,737	18,451
Social security costs	1,518	24	1,542	1,434
Employers' contributions to NHS Pensions	2,189	29	2,218	2,097
Pension cost - other contributions	8	1	9	25
Other employment benefits	1	0	1	0
Termination benefits	101	0	101	132
Agency/contract staff	10	1,091	1,101	907
<b>TOTAL GROSS STAFF COSTS</b>	<b>22,910</b>	<b>1,799</b>	<b>24,709</b>	<b>23,046</b>
Income in respect of staff costs where netted off expenditure	(43)	(10)	(53)	(48)
<b>TOTAL STAFF COSTS</b>	<b>22,867</b>	<b>1,789</b>	<b>24,656</b>	<b>22,998</b>

Staff costs here and in note 6 differ as note 7.1 also includes redundancy and early retirements costs and the costs of staff involved in research and development.

## Note 7.2 Staff numbers (whole time equivalents)

	Permanent Number	Other Number	2012/13 Total Number	2011/12 Total Number
Medical and dental	51,901	6,184	58,085	55,916
Ambulance staff	9,447	142	9,589	6,862
Administration and estates	119,157	3,664	122,821	119,718
Healthcare assistants and other support staff	76,733	2,588	79,321	76,777
Nursing, midwifery and health visiting staff	194,580	5,232	199,812	197,153
Nursing, midwifery and health visiting learners	2,269	167	2,436	2,569
Scientific, therapeutic and technical staff	80,863	1,871	82,734	80,467
Social care staff	1,562	472	2,034	2,554
Bank and agency staff	-	24,740	24,740	20,105
Other	7,278	92	7,370	4,581
<b>TOTAL</b>	<b>543,790</b>	<b>45,152</b>	<b>588,942</b>	<b>566,702</b>

Individual NHS foundation trusts' accounts and annual reports contain disclosure of exit packages agreed in the year, the Hutton fair pay ratio, off-payroll engagement and staff sickness absences as required by the HM Treasury FReM.

## Note 8 Pensions

All NHS foundation trusts participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the regulations of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS foundation trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury. For 2012/13, the contribution rate was 14% (2011/12: 14%) It is not possible for the NHS foundation trust sector to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme. Employer pension cost contributions are charged to operating expenses as and when they become due.

As set out in accounting policy 1.3, some NHS foundation trusts also have employees whom are members of other pension schemes. Membership of these individual schemes is not material to the consolidated NHS Foundation Trust accounts.

## Note 9 Retirements due to ill-health

During 2012/13 there were 774 retirements on the grounds of ill-health (2011/12: 664). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £47 million (2011/12: £50 million).

## Note 10 The late payment of commercial debts (Interest) Act 1998

In 2012/13 nine NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- Dorset County Hospital NHS Foundation Trust;
- Dorset Healthcare University NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;
- The Hillingdon Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Medway NHS Foundation Trust;
- Milton Keynes Hospital NHS Foundation Trust;
- Northamptonshire Healthcare NHS Foundation Trust; and
- South Western Ambulance Service NHS Foundation Trust.

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £37,000.

In 2011/12 nine NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- Camden and Islington NHS Foundation Trust;
- Colchester Hospital University NHS Foundation Trust;

- Frimley Park Hospital NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Medway NHS Foundation Trust;
- Surrey and Borders Partnership NHS Foundation Trust; and
- The Hillingdon Hospitals NHS Foundation Trust.

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £30,000.

#### Note 11 Finance income

	2012/13	2011/12
	£m	£m
Interest on bank accounts	24	18
Interest on loans and receivables	5	7
Interest on impaired financial assets	0	0
Interest on held-to-maturity financial assets	1	1
Other gains (investment properties)	0	1
Other	2	2
<b>TOTAL</b>	<b>32</b>	<b>29</b>

#### Note 12 Finance expenditure

	2012/13	2011/12
	£m	£m
Loans from the Department of Health including the Foundation Trust Financing Facility	38	29
Commercial loans	0	1
Finance leases	10	8
Interest on late payment of commercial debt	0	0
Other	1	1
Finance Costs in PFI obligations		
Main Finance Costs	263	263
Contingent Finance Costs	66	54
Other finance costs	1	1
<b>TOTAL</b>	<b>379</b>	<b>357</b>

#### Note 13 Discontinued operations

	2012/13	2011/12
	£m	£m
Operating income of discontinued operations (included within note 3)	29	71
Operating expenses of discontinued operations (included within note 6.1)	(28)	(69)
<b>Surplus/(deficit) of discontinued operations</b>	<b>1</b>	<b>2</b>

Five NHS foundation trusts have reported discontinued operations in 2012/13. There were no gains/losses on disposal reported. These discontinued operations are not material to the consolidated NHS Foundation Trust accounts. These amounts have therefore not been shown separately on the face of the Statement of Comprehensive Income and the prior year figures have not been restated.

**Note 14.1 Intangible assets 2012/13**

	Software licences (purchased)	Licences & trademarks (purchased)	Information technology (internally generated)	Development expenditure (internally generated)	Other (purchased)	Intangible Assets Under Construction	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross cost at 1 April 2012</b>	<b>273</b>	<b>3</b>	<b>65</b>	<b>6</b>	<b>3</b>	<b>43</b>	<b>393</b>
<b>Gross cost at start of period for new FTs</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>3</b>
Transfers under absorption accounting (see note 37)	6	0	0	2	0	0	8
Adjustments to prior period accounted for in-year (see note 36)	(1)	1	1	0	0	25	26
Additions - purchased	45	0	4	5	0	31	85
Additions - donated	1	0	0	0	0	0	1
Additions - internally generated	0	0	1	0	0	0	1
Impairments	0	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	50	0	7	2	0	(50)	9
Revaluations	(2)	0	0	0	(1)	0	(3)
Disposals	(3)	0	(8)	0	0	(1)	(12)
<b>Valuation/Gross cost at 31 March 2013</b>	<b>370</b>	<b>4</b>	<b>70</b>	<b>17</b>	<b>2</b>	<b>48</b>	<b>511</b>
<b>Amortisation at 1 April 2012</b>	<b>162</b>	<b>1</b>	<b>26</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>195</b>
<b>Amortisation at start of period for new FTs</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>
Transfers under absorption accounting (see note 37)	4	0	0	1	0	0	5
Adjustment to prior period accounted for in-year (see note 36)	(1)	0	1	0	0	0	0
Provided during the year	41	1	10	2	0	0	54
Impairments	27	0	0	0	0	1	28
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	1	0	1	0	0	(3)	(1)
Revaluation surpluses	(2)	0	0	0	0	0	(2)
Disposals	(3)	0	(6)	0	0	0	(9)
<b>Amortisation at 31 March 2013</b>	<b>230</b>	<b>2</b>	<b>32</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>272</b>
<b>Net book value at 31 March 2013</b>	<b>140</b>	<b>2</b>	<b>38</b>	<b>11</b>	<b>1</b>	<b>47</b>	<b>239</b>
<b>Net book value at 1 April 2012</b>	<b>111</b>	<b>2</b>	<b>39</b>	<b>4</b>	<b>2</b>	<b>40</b>	<b>198</b>

Note 14.2 Intangible assets 2011/12

	Software licences (purchased)	Licences & trademarks (purchased)	Information technology (internally generated)	Development expenditure (internally generated)	Other (purchased)	Intangible Assets Under Construction	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross Cost at 1 April 2011</b>	<b>224</b>	<b>3</b>	<b>44</b>	<b>3</b>	<b>3</b>	<b>30</b>	<b>307</b>
<b>Valuation/Gross cost at start of period for new FTs</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>20</b>
Additions - purchased	23	0	4	2	0	28	57
Additions - donated	0	0	0	0	0	1	1
Additions - internally generated	0	0	0	0	0	2	2
Impairments	0	0	0	0	(1)	0	(1)
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	11	0	17	0	0	(18)	10
Revaluations	0	0	0	0	0	0	0
Disposals	(3)	0	0	0	0	0	(3)
<b>Gross cost at 31 March 2012</b>	<b>273</b>	<b>3</b>	<b>65</b>	<b>6</b>	<b>3</b>	<b>43</b>	<b>393</b>
<b>Amortisation at 1 April 2011</b>	<b>122</b>	<b>1</b>	<b>19</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>143</b>
<b>Amortisation at start of period for new FTs</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>
Provided during the year	34	0	7	1	0	0	42
Impairments	0	0	0	0	1	3	4
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Revaluation surpluses	0	0	0	0	0	0	0
Disposals	(2)	0	0	0	0	0	(2)
<b>Amortisation at 31 March 2012</b>	<b>162</b>	<b>1</b>	<b>26</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>195</b>
<b>Net book value at 31 March 2012</b>	<b>111</b>	<b>2</b>	<b>39</b>	<b>4</b>	<b>2</b>	<b>40</b>	<b>198</b>
<b>Net book value at 1 April 2011</b>	<b>102</b>	<b>2</b>	<b>25</b>	<b>2</b>	<b>3</b>	<b>30</b>	<b>164</b>



### Note 14.3 Intangible asset financing

Intangible assets financing	Software licences (purchased) £m	Licences & trademarks (purchased) £m	Information technology (internally generated) £m	Development expenditure (internally generated) £m	Other (purchased) £m	Intangible Assets Under Construction £m	Total £m
<b>Net book value</b>							
NBV - Purchased at 31 March 2013	140	2	37	11	0	43	233
NBV - Finance leases at 31 March 2013	1	0	0	0	0	0	1
NBV - Donated at 31 March 2013	(1)	0	1	0	1	4	5
<b>NBV total at 31 March 2013</b>	<b>140</b>	<b>2</b>	<b>38</b>	<b>11</b>	<b>1</b>	<b>47</b>	<b>239</b>
<b>Net book value</b>							
NBV - Purchased at 31 March 2012	106	2	39	4	1	36	188
NBV - Finance Leases at 31 March 2012	3	0	0	0	0	0	3
NBV - Donated at 31 March 2012	2	0	0	0	1	4	7
<b>NBV total at 31 March 2012</b>	<b>111</b>	<b>2</b>	<b>39</b>	<b>4</b>	<b>2</b>	<b>40</b>	<b>198</b>

**Note 15.1 Property, Plant and Equipment 2012/13**

	Land	Buildings excluding dwellings	Dwellings	Assets Under Construction and POA	Plant & machinery	Transport equipment	Information Technology	Furniture & fittings	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross cost at 1 April 2012</b>	<b>3,144</b>	<b>17,463</b>	<b>233</b>	<b>756</b>	<b>3,949</b>	<b>177</b>	<b>1,220</b>	<b>311</b>	<b>27,253</b>
<b>Valuation/Gross cost at start of period for new FTs</b>	<b>91</b>	<b>194</b>	<b>0</b>	<b>30</b>	<b>74</b>	<b>19</b>	<b>22</b>	<b>3</b>	<b>433</b>
Transfers under absorption accounting (see note 37)	31	137	3	3	33	25	21	1	254
Adjustments to prior period accounted for in-year (see note 36)	55	4	(1)	(34)	(5)	0	(3)	(1)	15
Additions - purchased	9	396	1	768	208	11	107	12	1,512
Additions - leased	0	5	0	6	10	0	4	0	25
Additions - donated	0	15	0	47	24	0	1	0	87
Additions - government granted	0	0	0	1	1	0	0	0	2
Impairments	(92)	(280)	(6)	0	0	0	0	0	(378)
Reversal of impairments	3	42	2	0	0	0	0	0	47
Reclassifications	2	601	6	(787)	97	7	45	17	(12)
Transfer to/from asset held for sale or disposal group	(38)	(25)	(3)	0	0	0	0	0	(66)
Revaluations	16	(657)	(2)	(4)	9	0	0	0	(638)
Disposals	(6)	(47)	(3)	(8)	(239)	(12)	(67)	(16)	(398)
<b>Valuation/Gross cost at 31 March 2013</b>	<b>3,215</b>	<b>17,848</b>	<b>230</b>	<b>778</b>	<b>4,161</b>	<b>227</b>	<b>1,350</b>	<b>327</b>	<b>28,136</b>
<b>Accumulated depreciation at 1 April 2012</b>	<b>59</b>	<b>2,176</b>	<b>30</b>	<b>29</b>	<b>2,515</b>	<b>100</b>	<b>832</b>	<b>204</b>	<b>5,945</b>
<b>Depreciation at start of period for new FTs</b>	<b>0</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>15</b>	<b>13</b>	<b>1</b>	<b>115</b>
Transfers under absorption accounting (see note 37)	0	2	0	0	22	14	14	1	53
Adjustments to prior period accounted for in-year (see note 36)	55	1	(1)	(10)	(5)	0	(3)	(2)	35
Provided during the year	0	552	8	0	326	21	139	22	1,068
Impairments	21	621	3	19	5	0	1	0	670
Reversal of impairments	(1)	(86)	(1)	0	0	0	0	0	(88)
Reclassifications	0	8	0	(4)	(4)	0	(2)	1	(1)
Transfer to/from asset held for sale or disposal group	0	(4)	0	0	0	0	0	0	(4)
Revaluation surpluses	(54)	(795)	(7)	(4)	5	0	0	0	(855)
Disposals	(1)	(35)	(1)	0	(230)	(12)	(63)	(15)	(357)
<b>Accumulated depreciation at 31 March 2013</b>	<b>79</b>	<b>2,469</b>	<b>31</b>	<b>30</b>	<b>2,691</b>	<b>138</b>	<b>931</b>	<b>212</b>	<b>6,581</b>
<b>Net book value at 31 March 2013</b>	<b>3,136</b>	<b>15,379</b>	<b>199</b>	<b>748</b>	<b>1,470</b>	<b>89</b>	<b>419</b>	<b>115</b>	<b>21,555</b>
<b>Net book value at 1 April 2012</b>	<b>3,085</b>	<b>15,287</b>	<b>203</b>	<b>727</b>	<b>1,434</b>	<b>77</b>	<b>388</b>	<b>107</b>	<b>21,308</b>

**Note 15.2 Property, Plant and Equipment 2011/12**

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets Under Construction and POA £m	Plant & machinery £m	Transport equipment £m	Information Technology £m	Furniture & fittings £m	Total £m
<b>Valuation/Gross cost at 1 April 2011 - restated (pre TCS adjustments)</b>	<b>3,180</b>	<b>15,980</b>	<b>243</b>	<b>789</b>	<b>3,662</b>	<b>105</b>	<b>1,076</b>	<b>293</b>	<b>25,328</b>
TCS and merger adjustments	0	0	0	0	4	0	5	1	10
<b>Valuation/Gross cost at 1 April 2011 - restated</b>	<b>3,180</b>	<b>15,980</b>	<b>243</b>	<b>789</b>	<b>3,666</b>	<b>105</b>	<b>1,081</b>	<b>294</b>	<b>25,338</b>
<b>Valuation/Gross cost at start of period for new FTs</b>	<b>147</b>	<b>665</b>	<b>9</b>	<b>20</b>	<b>220</b>	<b>66</b>	<b>65</b>	<b>9</b>	<b>1,201</b>
Additions - purchased	11	565	1	712	202	6	90	15	1,602
Additions - donated	0	10	0	49	25	0	1	0	85
Additions - government granted	0	0	0	1	0	0	0	0	1
Impairments	(69)	(209)	(5)	0	0	0	0	0	(283)
Reversal of impairments	(62)	84	0	0	1	0	0	0	23
Reclassifications	2	677	(4)	(811)	65	10	37	1	(23)
Transfer to/from asset held for sale or disposal group	(42)	(54)	(8)	0	0	0	(1)	0	(105)
Revaluations	(5)	(228)	0	(2)	(27)	0	(4)	(2)	(268)
Disposals	(18)	(27)	(3)	(2)	(203)	(10)	(49)	(6)	(318)
<b>Valuation/Gross cost at 31 March 2012</b>	<b>3,144</b>	<b>17,463</b>	<b>233</b>	<b>756</b>	<b>3,949</b>	<b>177</b>	<b>1,220</b>	<b>311</b>	<b>27,253</b>
<b>Accumulated depreciation at 1 April 2011 (pre TCS adjustments)</b>	<b>92</b>	<b>1,833</b>	<b>29</b>	<b>14</b>	<b>2,300</b>	<b>61</b>	<b>717</b>	<b>183</b>	<b>5,229</b>
TCS and merger adjustments	0	0	0	0	2	0	3	1	6
<b>Accumulated depreciation at 1 April 2011 - restated</b>	<b>92</b>	<b>1,833</b>	<b>29</b>	<b>14</b>	<b>2,302</b>	<b>61</b>	<b>720</b>	<b>184</b>	<b>5,235</b>
<b>Depreciation at start of period for new FTs</b>	<b>0</b>	<b>45</b>	<b>1</b>	<b>0</b>	<b>133</b>	<b>35</b>	<b>37</b>	<b>7</b>	<b>258</b>
Provided during the year	0	505	8	0	303	14	126	21	977
Impairments	67	393	3	16	5	0	0	1	485
Reversal of impairments	(66)	(72)	0	0	0	0	0	0	(138)
Reclassifications	(1)	(12)	0	0	(1)	0	0	0	(14)
Transfer to/from asset held for sale or disposal group	0	(2)	(1)	0	0	0	(1)	0	(4)
Revaluation surpluses	(33)	(499)	(8)	(1)	(29)	0	(4)	(3)	(577)
Disposals	0	(15)	(2)	0	(198)	(10)	(46)	(6)	(277)
<b>Accumulated depreciation at 31 March 2012</b>	<b>59</b>	<b>2,176</b>	<b>30</b>	<b>29</b>	<b>2,515</b>	<b>100</b>	<b>832</b>	<b>204</b>	<b>5,945</b>
<b>Net book value at 31 March 2012</b>	<b>3,085</b>	<b>15,287</b>	<b>203</b>	<b>727</b>	<b>1,434</b>	<b>77</b>	<b>388</b>	<b>107</b>	<b>21,308</b>
<b>Net book value at 1 April 2011 (pre TCS)</b>	<b>3,088</b>	<b>14,147</b>	<b>214</b>	<b>775</b>	<b>1,362</b>	<b>44</b>	<b>359</b>	<b>110</b>	<b>20,099</b>

### Note 15.3 Property Plant and Equipment financing

	Land	Buildings excluding dwellings	Dwellings	Assets Under Construction and POA	Plant & machinery	Transport equipment	Information Technology	Furniture & fittings	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Net book value at 31 March 2013</b>									
Owned	2,980	10,973	160	717	1,227	85	400	103	16,645
Finance Lease	58	77	18	0	55	3	8	1	220
On-balance-sheet PFI contracts and other service concession arrangements	4	3,615	14	2	13	0	0	0	3,648
PFI residual interests	0	1	0	0	0	0	0	0	1
Government granted	0	26	0	2	5	0	1	0	34
Donated	94	687	7	27	170	1	10	11	1,007
<b>NBV total at 31 March 2013</b>	<b>3,136</b>	<b>15,379</b>	<b>199</b>	<b>748</b>	<b>1,470</b>	<b>89</b>	<b>419</b>	<b>115</b>	<b>21,555</b>
<b>Net book value - 31 March 2012</b>									
Owned	2,931	10,899	171	678	1,188	72	376	99	16,414
Finance Lease	59	96	16	0	56	4	3	1	235
On-balance-sheet PFI contracts and other service concession arrangements	4	3,620	10	10	15	0	0	0	3,659
PFI residual interests	0	1	5	0	0	0	0	0	6
Government granted	0	14	0	0	6	0	0	0	20
Donated	91	657	1	39	169	1	9	7	974
<b>NBV total at 31 March 2012</b>	<b>3,085</b>	<b>15,287</b>	<b>203</b>	<b>727</b>	<b>1,434</b>	<b>77</b>	<b>388</b>	<b>107</b>	<b>21,308</b>

## Note 16.1 Investments

	Investment Property 2012/13 £m	Investments in associates (and joined controlled operations) 2012/13 £m	Other Investments 2012/13 £m
<b>Carrying Value at 1 April 2012</b>	<b>59</b>	<b>7</b>	<b>0</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>0</b>	<b>0</b>
Acquisitions in year - subsequent expenditure	0	0	4
Acquisitions in year – other	0	5	32
Share of profit/(loss)	0	3	0
Movement in fair value	1	0	0
Disposals	0	0	(36)
<b>Carrying Value at 31 March 2013</b>	<b>60</b>	<b>15</b>	<b>0</b>

	Investment Property 2011/12 £m	Investments in associates (and joined controlled operations) 2011/12 £m	Other Investments 2011/12 £m
<b>Carrying Value at 1 April 2011</b>	<b>47</b>	<b>2</b>	<b>0</b>
<b>At start of period for new FTs</b>	<b>11</b>	<b>0</b>	<b>0</b>
Acquisitions in year - subsequent expenditure	0	0	0
Acquisitions in year - other	1	2	38
Share of profit/(loss)	0	3	0
Impairments	2	0	0
Reversal of impairment	0	0	0
Transfers to assets held in disposal groups	(3)	0	0
Disposals	1	0	(38)
<b>Carrying Value at 31 March 2012</b>	<b>59</b>	<b>7</b>	<b>0</b>

## Note 16.2 Investment Property income

	2012/13 £m	2011/12 £m
Investment Property income	4	3

## Note 17.1 Fair value of investments in associates and jointly controlled operations

	Assets £m	Liabilities £m	Revenues £m	Profit/(Loss) £m
<b>31 March 2013</b>	39	(15)	56	1
<b>31 March 2012</b>	17	(14)	32	(16)

**Note 17.2 Disclosure of aggregate amounts for assets and liabilities of associates and jointly controlled operations accounted for using the proportionate consolidation method**

	31 March 2013	31 March 2012
	£m	£m
Current assets	22	13
Non-current assets	35	16
<b>Total assets</b>	<b>57</b>	<b>29</b>
Current liabilities	(26)	(16)
Non-current liabilities	(13)	(9)
<b>Total liabilities</b>	<b>(39)</b>	<b>(25)</b>
	2012/13	2011/12
	£m	£m
Operating income	91	66
Operating expenses	(90)	(62)
<b>Surplus /(deficit) for the year</b>	<b>1</b>	<b>4</b>

**Note 18 Impairment of assets**

	2012/13			2011/12 restated
	Impairments	Reversals	Net impairments	Net impairments
	£m	£m	£m	£m
Impairments charged to operating expenses and income:				
Loss or damage from normal operations	13	0	13	12
Loss as a result of catastrophe	0	0	0	3
Abandonment of assets in course of construction	1	0	1	8
Unforeseen obsolescence	1	(1)	0	5
Over specification of assets	9	0	9	7
Other	155	(12)	143	96
Changes in market price	526	(76)	450	232
<b>Total Impairments charged to operating expenses and income</b>	<b>705</b>	<b>(89)</b>	<b>616</b>	<b>363</b>
Impairments charged to the revaluation reserve	378	(47)	331	265
<b>Total Impairments</b>	<b>1,083</b>	<b>(136)</b>	<b>947</b>	<b>628</b>

In the 2011/12 Consolidated NHS Foundation Trust Accounts fair value gains and losses on investment properties were included within this note. These (gains)/losses are now shown separately in the Statement of Comprehensive Income. As a result a gain of £2 million has been removed from the 2011/12 impairments figure here and reclassified.

**Note 19.1 Inventories**

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>£m</b>	<b>£m</b>
Drugs	151	146
Consumables	273	260
Energy	9	8
Inventories carried at fair value less costs to sell	4	4
Work in progress	0	0
Other	23	20
<b>TOTAL Inventories</b>	<b>460</b>	<b>438</b>

**Note 19.2 Inventories recognised in expenses**

	<b>2012/13</b>	<b>2011/12</b>
	<b>£m</b>	<b>£m</b>
Inventories recognised in expenses	3,906	3,083
Write-down of inventories recognised as an expense	5	5
<b>TOTAL Inventories recognised in expenses</b>	<b>3,911</b>	<b>3,088</b>

Inventories recognised in expenses here is higher than 'Inventories consumed' in note 6.1 as NHS foundation trusts may include the costs in other lines within the expenditure note.

**Note 20.1 Trade and other receivables**

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>£m</b>	<b>£m</b>
<b>Current</b>		
NHS Receivables	615	566
Other receivables with related parties	109	104
Provision for impaired receivables	(196)	(184)
Prepayments (Non-PFI)	228	208
PFI Prepayments	22	19
Accrued income	249	244
Interest Receivable	1	1
Finance Lease Receivables	0	0
PDC dividend receivable	21	18
VAT receivable	71	64
Other receivables	471	404
Capital receivables	6	11
<b>TOTAL CURRENT TRADE AND OTHER RECEIVABLES</b>	<b>1,597</b>	<b>1,455</b>
<b>Non-Current</b>		
NHS Receivables	2	31
Other receivables with related parties	13	11
Provision for impaired receivables	(9)	(11)
Prepayments (Non-PFI)	12	21
PFI Prepayments	104	83
Accrued income	10	12
Finance Lease Receivables	3	4
Other receivables	64	67
Capital receivables	1	0
<b>TOTAL NON-CURRENT TRADE AND OTHER RECEIVABLES</b>	<b>200</b>	<b>218</b>

## Note 20.2 Provision for impairment of receivables

	2012/13	2011/12
	£m	£m
<b>At 1 April</b>	195	181
At start of period for new NHS foundation trusts	14	7
Transfers under absorption accounting (see note 37)	1	0
Increase in provision	84	113
Amounts utilised	(34)	(47)
Unused amounts reversed	(55)	(59)
<b>At 31 March</b>	<b>205</b>	<b>195</b>

## Note 20.3 Analysis of impaired receivables

	31 March 2013		31 March 2012	
	Trade	Other	Trade	Other
	Receivables	Receivables	Receivables	Receivables
	£m	£m	£m	£m
Ageing of impaired receivables				
0 - 30 days	39	8	43	8
30-60 days	9	3	7	1
60-90 days	10	3	11	1
90- 180 days	19	6	20	3
over 180 days	92	44	98	21
<b>Total</b>	<b>169</b>	<b>64</b>	<b>179</b>	<b>34</b>
Ageing of non-impaired receivables past their due date				
0 - 30 days	355	115	257	66
30-60 days	64	27	49	14
60-90 days	51	10	57	10
90- 180 days	34	16	50	7
over 180 days	33	78	69	39
<b>Total</b>	<b>537</b>	<b>246</b>	<b>482</b>	<b>136</b>

## Note 21 Other financial assets

	31 March 2013	31 March 2012
	£m	£m
<b>Non-current</b>		
Loan and receivables	1	4
<b>Total</b>	<b>1</b>	<b>4</b>
<b>Current</b>		
Held to maturity investments	0	11
Loan and receivables	37	33
<b>Total</b>	<b>37</b>	<b>44</b>



## Note 22 Non-current assets held for sale and assets in disposal groups

	2012/13				2011/12
	Intangible assets £m	Property, Plant and Equipment £m	Other £m	Total £m	Total £m
<b>NBV of non-current assets held for sale and assets in disposal groups at 1 April</b>	<b>0</b>	<b>116</b>	<b>0</b>	<b>116</b>	<b>80</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>5</b>
Transfers under absorption accounting (see note 37)	0	1	0	1	0
Plus assets classified as available for sale in the year	0	62	0	62	102
Less assets sold in year	0	(58)	0	(58)	(57)
Less Impairment of assets held for sale	0	(7)	0	(7)	(18)
Plus Reversal of impairment of assets held for sale	0	1	0	1	1
Less assets no longer classified as held for sale, for reasons other than disposal by sale	0	(2)	0	(2)	3
<b>NBV of non-current assets for sale and assets in disposal groups at 31 March</b>	<b>0</b>	<b>114</b>	<b>0</b>	<b>114</b>	<b>116</b>

## Note 23 Cash and cash equivalents

	2012/13 £m	2011/12 £m
<b>At 1 April</b>	<b>3,947</b>	<b>3,258</b>
<b>At start of period for new FTs</b>	<b>78</b>	<b>53</b>
Transfers under absorption accounting (see note 37)	13	0
Net change in year	445	636
<b>At 31 March</b>	<b>4,483</b>	<b>3,947</b>
Broken down into:		
Cash at commercial banks and in hand	123	111
Cash with the Government Banking Service	4,340	3,794
Other current investments	20	42
<b>Cash and cash equivalents as in Statement of Financial Position</b>	<b>4,483</b>	<b>3,947</b>
Bank overdraft	(4)	(5)
Drawdown in committed facility	0	(8)
<b>Cash and cash equivalents as in Statement of Cash Flows</b>	<b>4,479</b>	<b>3,934</b>

## Note 24.1 Trade and other payables

	<b>31 March 2013 £m</b>	<b>31 March 2012 £m</b>
<b>Current</b>		
Receipts in advance	54	69
NHS payables	235	319
Amounts due to other related parties	216	208
Other trade payables	722	578
Capital payables	263	226
Social Security costs	224	168
VAT payable	1	1
Other taxes payable	232	260
Other payables	443	420
Accruals	1,451	1,207
PDC dividend payable	3	2
<b>TOTAL CURRENT TRADE AND OTHER PAYABLES</b>	<b>3,844</b>	<b>3,458</b>
<b>Non-current</b>		
Receipts in advance	1	1
NHS payables	2	4
Amounts due to other related parties	7	8
Other trade payables	1	2
Capital payables	2	3
VAT payable	3	0
Other taxes payable	0	0
Other payables	11	12
Accruals	1	0
<b>TOTAL NON-CURRENT TRADE AND OTHER PAYABLES</b>	<b>28</b>	<b>30</b>

## Note 24.2 Early retirements detail included in NHS payables above

	<b>2012/13 £m</b>	<b>2011/12 £m</b>
To buy out the liability for early retirements over 5 years	1	2
Outstanding pension contributions	44	53
	<b>Number</b>	<b>Number</b>
Number of cases involved	250	236

## Note 25.1 Borrowings

	31 March 2013 £m	31 March 2012 £m
<b>Current</b>		
Bank overdrafts - Government Banking Service	0	0
Bank overdrafts - Commercial banks	4	5
Drawdown in committed facility	0	8
Loans from Foundation Trust Financing Facility	80	66
Loans from Department of Health	11	14
Other Loans	4	3
Obligations under finance leases	23	23
PFI lifecycle replacement received in advance	0	0
Obligations under PFI contracts (excl. lifecycle)	96	95
<b>TOTAL CURRENT BORROWINGS</b>	<b>218</b>	<b>214</b>
<b>Non-current</b>		
Loans from Foundation Trust Financing Facility	1,041	860
Loans from the Department of Health and other loans	57	72
Obligations under finance leases	104	102
Obligations under Private Finance Initiative contracts	4,228	4,313
<b>TOTAL OTHER NON CURRENT LIABILITIES</b>	<b>5,430</b>	<b>5,347</b>

## Note 25.2 Prudential Borrowing Limit

	2012/13 £m	2011/12 £m
Total long term borrowing limit set by Monitor	10,026	9,497
Working capital facility limit agreed by Monitor	2,307	2,265
<b>Total Prudential Borrowing Limit at 31 March</b>	<b>12,333</b>	<b>11,762</b>

### Borrowing as defined in the Prudential Borrowing Code

	2012/13 £m	2011/12 restated £m
<b>Borrowing at 1 April</b>	<b>5,550</b>	<b>5,145</b>
<b>Borrowing at start of period for new FTs</b>	<b>8</b>	<b>67</b>
Borrowings transferred under absorption accounting	5	0
Net actual borrowing/(repayment) in year	83	338
<b>Long term borrowing at 31 March</b>	<b>5,646</b>	<b>5,550</b>
<b>Working capital borrowing at 1 April</b>	<b>13</b>	<b>15</b>
<b>Working capital borrowing at start of period for new FTs</b>	<b>0</b>	<b>0</b>
Net actual borrowing/(repayment) in year - working capital	(9)	(2)
<b>Working capital borrowing at 31 March</b>	<b>4</b>	<b>13</b>

Long-term borrowing represents total borrowing to provide long term financing. It is not the same as 'non-current' borrowing, which relates to amounts due to be paid after more than one year.

2011/12 long term borrowing and working capital borrowing have been restated to correct prior period errors in the reporting by underlying FTs. Long term borrowing has been increased by £22 million and working capital borrowing decreased by £17 million.

The Prudential Borrowing Code no longer applies to NHS foundation trusts from 1 April 2013, having been repealed by the Health and Social Care Act 2012.

## Note 26.1 Provisions for liabilities and charges

	Current		Non-current	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Pensions relating to former directors	0	0	2	2
Pensions relating to other staff	15	15	146	156
Other legal claims	36	29	17	12
Agenda for Change	17	12	3	2
Restructurings	34	33	4	3
Continuing care	2	1	0	1
Equal pay	4	3	10	15
Redundancy	76	49	2	3
Other	160	140	76	65
<b>Total</b>	<b>344</b>	<b>282</b>	<b>260</b>	<b>259</b>

## Note 26.2 Provisions for liabilities and charges analysis

	Pensions - former directors	Pensions - other staff	Other legal claims	Agenda for Change	Restru- cturings	Continuing care	Equal pay	Redundancy	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2012</b>	<b>2</b>	<b>171</b>	<b>41</b>	<b>14</b>	<b>36</b>	<b>2</b>	<b>18</b>	<b>52</b>	<b>205</b>	<b>541</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>8</b>	<b>15</b>
Transfers under absorption accounting	0	1	1	6	0	0	0	1	1	10
Adjustments to prior period accounted for in- year (see note 36)	0	0	0	0	1	0	0	2	0	3
Change in the discount rate	0	4	0	0	0	0	0	0	2	6
Arising during the year	0	13	29	5	21	1	2	69	137	277
Utilised during the year	0	(31)	(12)	(2)	(14)	(1)	(1)	(30)	(72)	(163)
Reversed unused	0	(4)	(10)	(3)	(6)	0	(5)	(17)	(46)	(91)
Unwinding of discount	0	5	0	0	0	0	0	0	1	6
<b>At 31 March 2013</b>	<b>2</b>	<b>161</b>	<b>53</b>	<b>20</b>	<b>38</b>	<b>2</b>	<b>14</b>	<b>78</b>	<b>236</b>	<b>604</b>
<b>Expected timing of cash flows:</b>										
- not later than one year;	0	15	36	17	34	2	4	76	160	344
- later than one year and not later than five years;	1	59	8	2	3	0	10	2	39	124
- later than five years.	1	87	9	1	1	0	0	0	37	136
<b>TOTAL</b>	<b>2</b>	<b>161</b>	<b>53</b>	<b>20</b>	<b>38</b>	<b>2</b>	<b>14</b>	<b>78</b>	<b>236</b>	<b>604</b>

### Note 26.3 Clinical negligence liabilities

	31 March 2013	31 March 2012
	£m	£m
Amount included in provisions of the NHS Litigation Authority	4,166	3,467

The NHS Litigation Authority manages clinical and some non-clinical claims on behalf of NHS foundation trusts.

### Note 27 Other liabilities

	31 March 2013	31 March 2012
	£m	£m
<b>Current</b>		
Deferred grants income	27	20
Other Deferred income	462	526
Deferred PFI credits	0	1
Lease incentives	1	1
Net Pension Scheme Liability	0	6
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<b>490</b>	<b>554</b>
<b>Non-current</b>		
Deferred grants income	11	1
Other Deferred income	147	122
Deferred PFI credits	15	19
Lease incentives	12	7
Net Pension Scheme Liability	9	5
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<b>194</b>	<b>154</b>

### Note 28 Contractual capital commitments

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

	31 March 2013	31 March 2012
	£m	£m
Property, Plant and Equipment	882	562
Intangible assets	16	10
<b>Total</b>	<b>898</b>	<b>572</b>

## Note 29.1 Finance lease receivables

Receivables generated in lease agreements where NHS foundation trusts are the lessor:

	<b>31 March 2013 £m</b>	<b>31 March 2012 £m</b>
<b>Gross lease receivables</b>	<b>3</b>	<b>13</b>
Of which those receivable:		
- not later than one year;	0	0
- later than one year and not later than five years;	0	2
- later than five years.	3	11
Unearned interest income	0	(8)
Allowance for uncollectable lease payments	0	0
<b>Net lease receivables</b>	<b>3</b>	<b>5</b>
Of which those receivable:		
- not later than one year;	0	0
- later than one year and not later than five years;	0	1
- later than five years.	3	4
	<b>31 March 2013 £m</b>	<b>31 March 2012 £m</b>
The unguaranteed residual value accruing to the NHS foundation trust	2	2
The accumulated allowance for uncollectable minimum lease payments receivable	1	1
Contingent rents recognised as income in the period	0	0
Contingent rents recognised as expenditure in the period	0	0

## Note 29.2 Finance lease obligations

Obligations incurred in lease agreements where foundation trusts are lessees:

	31 March 2013	31 March 2012
	£m	£m
<b>Gross lease liabilities</b>	<b>229</b>	<b>190</b>
of which liabilities are due		
- not later than one year;	30	29
- later than one year and not later than five years;	77	75
- later than five years.	122	86
Finance charges allocated to future periods	(102)	(65)
<b>Net lease liabilities</b>	<b>127</b>	<b>125</b>
Of which those payable:		
- not later than one year;	23	23
- later than one year and not later than five years;	53	56
- later than five years.	51	46

## Note 30.1 On-Statement of Financial Position Private Finance Initiative (PFI) finance obligations

	31 March 2013	31 March 2012
	£m	£m
<b>Gross PFI liabilities</b>	<b>9,088</b>	<b>9,285</b>
of which liabilities are due		
- not later than one year;	344	340
- later than one year and not later than five years;	1,320	1,307
- later than five years.	7,424	7,638
Finance charges allocated to future periods	(4,764)	(4,877)
<b>Net PFI obligation</b>	<b>4,324</b>	<b>4,408</b>
Of which those payable:		
- not later than one year;	96	95
- later than one year and not later than five years;	398	389
- later than five years.	3,830	3,924

## Note 30.2 On-Statement of Financial Position Private Finance Initiative (PFI) service obligations

NHS foundation trusts are committed to make the following payments in respect of the service element of on-Statement of Financial Position PFI obligations:

	31 March 2013	31 March 2012
	£m	£m
<b>Commitments in respect of the service element of the PFI</b>		
Within one year	357	346
2nd to 5th years (inclusive)	1,488	1,441
Later than five years	10,329	10,465
<b>Total</b>	<b>12,174</b>	<b>12,252</b>

**Note 31.1 Off-Statement of Financial Position PFI: charges**

	<b>2012/13</b>	<b>2011/12</b>
	<b>Total</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>
Gross charge to operating expenses in respect of off balance sheet PFI transaction(s)	7	8
Amortisation of PFI deferred asset(s)	0	0
<b>Net charge to operating expenses in respect of off-balance sheet PFI transaction(s)</b>	<b>7</b>	<b>8</b>

**Note 31.2 Off-Statement of Financial Position PFI: commitments**

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>Total</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>
Within one year	7	7
2nd to 5th years (inclusive)	16	29
Later than five years	8	18
<b>Total</b>	<b>31</b>	<b>54</b>

The reduction in off-statement of financial position PFI commitments in year results from a change in accounting judgement and correction of a prior year error in two underlying NHS foundation trusts.



### 32.1 Financial assets by category

	Loans and receivables £m	Assets at fair value through the I&E £m	Held to maturity £m	Available- for-sale £m	Total £m
<b>Assets included within the SoFP at 31 March 2013</b>					
NHS Trade and other receivables excluding non financial assets	850	0	0	0	850
Non-NHS Trade and other receivables excluding non financial assets	560	0	0	0	560
Other Financial Assets	38	0	0	0	38
Cash and cash equivalents at bank and in hand	4,483	0	0	0	4,483
<b>Total at 31 March 2013</b>	<b>5,931</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,931</b>
<b>Assets included within the SoFP at 31 March 2012</b>					
NHS Trade and other receivables excluding non financial assets	863	5	0	0	868
Non-NHS Trade and other receivables excluding non financial assets	414	2	0	0	416
Other Financial Assets	48	0	1	0	49
Cash and cash equivalents at bank and in hand	3,947	0	0	0	3,947
<b>Total at 31 March 2012</b>	<b>5,272</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>5,280</b>

### 32.2 Financial liabilities by category

	Other financial liabilities £m	Liabilities at fair value through the I&E £m	Total £m
<b>Liabilities included within the SoFP at 31 March 2013</b>			
Borrowings excluding Finance lease and PFI	1,197	0	1,197
Obligations under finance leases	126	0	126
Obligations under Private Finance Initiative contracts	4,325	0	4,325
NHS Trade and other payables excluding non financial liabilities	291	0	291
Non-NHS Trade and other payables excluding non financial liabilities	2,593	0	2,593
Other financial liabilities	290	0	290
Provisions under contract	359	0	359
<b>Total at 31 March 2013</b>	<b>9,181</b>	<b>0</b>	<b>9,181</b>
<b>Liabilities included within the SoFP at 31 March 2012</b>			
Borrowings excluding Finance lease and PFI liabilities	1,028	0	1,028
Obligations under finance leases	125	0	125
Obligations under Private Finance Initiative contracts	4,389	19	4,408
NHS Trade and other payables excluding non financial liabilities	540	0	540
Non-NHS Trade and other payables excluding non financial liabilities	1,873	24	1,897
Other financial liabilities	210	0	210
Provisions under contract	307	10	317
<b>Total at 31 March 2012</b>	<b>8,472</b>	<b>53</b>	<b>8,525</b>

### **Note 32.3 Financial risk management**

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

#### Liquidity risk

The level of income generated by NHS foundation trusts is dependent on the contractual arrangements they have with their commissioning NHS Primary Care Trusts (PCTs), whose resources are voted on annually by parliament. In the majority of cases, these contractual arrangements are either based on a tariff for services performed or on a contract based on assumptions for the amount of work to be carried out by the NHS foundation trust. Under the Health and Social Care Act 2012, PCTs were abolished on 31 March 2013. Balances due to be settled within three months were transferred to the Department of Health and other balances have been received by successor Clinical Commissioning Groups. The risk to the sector is therefore deemed to be low.

Under their licence conditions (previously Terms of Authorisation), NHS foundation trusts are required to carry out their functions effectively, efficiently and economically and to be a going concern as defined by generally accepted accounting practice. Monitor supervises the risk of individual NHS foundation trusts breaching these licence conditions by reviewing a range of financial metrics and calculating a Financial Risk Rating for each trust at least every three months. If Monitor considers an NHS foundation trust to be at risk of breaching its licence conditions, it may take enforcement action including intervening in the management of the trust using its powers under the National Health Service Act 2006, as amended by the Health and Social Care Act 2012.

Details of the Compliance Framework used by Monitor to monitor these risks and risk ratings for individual NHS foundation trusts can be accessed on the Monitor website ([www.monitor.gov.uk](http://www.monitor.gov.uk)).

As disclosed within the accounting policies at Note 1.22, the auditors of seven NHS foundation trusts have included an emphasis of matter paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts. In the NHS sector, the focus is on the continuity of services and Monitor's regulatory regime is established to ensure that provision of commissioner requested services is maintained. As such, it is deemed that there is not a risk that the wider sector would fail to meet its liabilities as they fall due.

#### Credit risk

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

NHS foundation trusts are permitted to generate income derived from private patients, however this income contributes only 1.07% of total income from activities generated in the year to 31 March 2013 (2011/12: 0.90%). Other sources of income from non-public sector bodies amount to a small proportion of total foundation trust income. Accordingly, the effective credit risk posed by income derived from private patients or non-public sector entities to the sector is low.

The maximum exposures as at 31 March 2013 are in receivables, as disclosed in the trade and other receivables note.

#### Currency risk

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

#### Interest rate risk

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

Up to 31 March 2013, under the National Health Service Act 2006, NHS foundation trusts were required to maintain their borrowing within a limit determined by a code devised by Monitor. Monitor's objective with this code was to ensure that individual NHS foundation trusts were at least as financially stable as the minimum investment grade category as defined by the top three credit rating agencies. If an NHS foundation trust exceeded its borrowing limit it would be in breach of its Terms of Authorisation and as such maybe subject to proportionate regulatory activity by Monitor.

From 1 April 2013 the Prudential Borrowing Code has been abolished under the provisions of the Health and Social Care Act 2012. Under Monitor's Compliance Framework, NHS foundation trusts continue to be risk rated on their ability to meet debt service costs, thus ensuring foundation trusts minimise and mitigate their exposure to interest rate risk.

### Note 33 Fair values of financial assets and financial liabilities

<b>Financial assets</b>	<b>Book Value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Non-current trade and other receivables excluding non financial assets	166	161
Other Investments	0	0
Other	1,001	957
<b>Total at 31 March 2013</b>	<b>1,167</b>	<b>1,118</b>

<b>Financial liabilities</b>	<b>Book Value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Non-current trade and other payables excluding non financial liabilities	315	267
Provisions under contract	184	158
Loans	768	697
Other	2,033	2,055
<b>Total at 31 March 2013</b>	<b>3,300</b>	<b>3,177</b>

As per IFRS 7, disclosure of fair values of financial assets and liabilities is not required where book value is a fair approximation of fair value.

### Note 34 Contingent assets and liabilities

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>£m</b>	<b>£m</b>
Value of contingent liabilities		
Equal pay	0	0
Other	(19)	(14)
<b>Gross value of contingent liabilities</b>	<b>(19)</b>	<b>(14)</b>
Amounts recoverable against liabilities	14	10
<b>Net value of contingent liabilities</b>	<b>(5)</b>	<b>(4)</b>
<b>Net value of contingent assets</b>	<b>2</b>	<b>2</b>

### Note 35.1 Pensions: Movements in defined benefit obligation and fair value of plan assets

Reconciliation of movements in the defined benefit obligation and the fair value of plan assets during the year for the amounts recognised in the Statement of Financial Position:

	<b>2012/13</b>	<b>2011/12</b>
	<b>£m</b>	<b>£m</b>
<b>Present Value of the defined benefit obligation at 1 April</b>	<b>(40)</b>	<b>(35)</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>0</b>
Current service cost	(1)	(1)
Interest cost	(2)	(2)
Contribution by plan participants	0	0
Actuarial gain/(losses)	(6)	(2)
Benefits paid	1	1
Past service costs	0	0
Business combinations	0	(1)
Curtailements and settlements	0	0
<b>Present Value of the defined benefit obligation at 31 March</b>	<b>(48)</b>	<b>(40)</b>

	2012/13 £m	2011/12 £m
<b>Plan assets at fair value at 1 April</b>	<b>34</b>	<b>32</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>0</b>
Expected return on plan assets	2	2
Actuarial gain/(losses)	3	(1)
Contributions by the employer	1	1
Contributions by the plan participants	0	0
Benefits paid	(1)	(1)
Business combinations	0	1
Settlements	0	0
<b>Plan assets at fair value at 31 March</b>	<b>39</b>	<b>34</b>
<b>Plan Surplus/(deficit) at 31 March</b>	<b>(9)</b>	<b>(6)</b>

#### Note 35.2 Pensions: Amounts recognised in the Statement of Comprehensive Income

	2012/13 £m	2011/12 £m
Current service cost	(1)	(1)
Interest cost	(2)	(2)
Expected return on plan assets	2	2
Past service cost not recognised as an asset	0	0
<b>Total (included in employee benefits)</b>	<b>(1)</b>	<b>(1)</b>

#### Note 36 Prior Period Adjustments

##### Sector-wide changes in accounting policy

In 2012/13 there have been no sector-wide changes in accounting policy which have required prior period adjustments. The major change in accounting in 2012/13 has been the introduction of absorption accounting for most transfers within the public sector. More details on these transfers are provided in note 37. Transfers by absorption are accounted for from the date of transfer and do not involve a prior period restatement. The new policy, as guided by HM Treasury, has been adopted for all transfers from 1 April 2012 onwards. There is therefore no prior period adjustment arising from this change. Transactions that were accounted for under merger accounting in 2011/12 have not been restated.

##### Other prior period adjustments applied by NHS foundation trusts

Other prior period adjustments in the consolidated NHS Foundation Trust accounts would arise from NHS foundation trusts in their 2012/13 accounts correcting, restating or reclassifying 2011/12 or opening figures.

None of the prior period adjustments made by individual NHS foundation trusts are material to the consolidated accounts. As a result, no prior period adjustments have been made in the consolidated NHS Foundation Trust accounts. Any instances where an individual NHS foundation trust has made a prior period adjustment or restated prior numbers have been accounted for as in-year movements in the consolidated NHS Foundation Trust accounts. These are clearly shown in each movements note supporting the Statement of Financial Position. These adjustments are individually and collectively immaterial to the consolidated accounts.

##### Restatement of disclosures

##### *Other auditor remuneration*

In 2012/13 the analysis of other auditor remuneration (note 6.2) has changed. This is a result of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489) being

amended by Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (SI 2011/2198). As the categories used in the analysis of non-audit fees has changed, the prior year comparatives have been restated on the same basis to maintain comparability.

*Fair value gains and losses on investment properties*

In 2011/12 a fair value gain of £2 million on investment properties was previously included as part of impairments in note 6.1. This has now been reclassified to be shown separately in the statement of comprehensive income. More details are provided in note 6.1.

*Third party assets*

The total as at 31 March 2012 in note 41, third party assets, has been restated. 11 NHS foundation trusts identified errors in their reporting to Monitor in 2011/12 for this note which have now been corrected.

*Prudential borrowing limit*

Figures for long-term borrowing and working capital borrowing in 2011/12 have been restated to correct errors made in the prior year reporting by NHS foundation trusts. More details are provided in note 25.2.

**Note 37 Transfers and business combinations**

From 2012/13 onwards, most business combinations within the public sector are accounted for using absorption accounting principles. More details are provided in the accounting policy 1.1.

During 2012/13 the following transfers by absorption have been included within the consolidated NHS Foundation Trust accounts:

Date	Trust	Details of transaction	Assets transferred £m	Cash paid by receiving Trust £m	Liabilities transferred £m	Gain included within SOCI £m
1 April 2012	Blackpool Teaching Hospitals NHS Foundation Trust	Transfer of Community Services from North Lancashire Teaching Hospitals PCT and Blackpool PCT	0.8	(0.4)	(0.4)	0.0
1 April 2012	Central Manchester University Hospitals NHS Foundation Trust	Transfer of all services from Trafford Healthcare NHS Trust	83.5		(12.5)	71.0
1 April 2012	Northern Lincolnshire and Goole Hospitals NHS Foundation Trust	Transfer of Community Services from North Lincolnshire PCT	0.2		0.0	0.2
1 July 2012	York Teaching Hospital NHS Foundation Trust	Transfer of all services from Scarborough and North East Yorkshire Healthcare NHS Trust	83.4		(14.4)	69.0
1 November 2012	Southern Health NHS Foundation Trust	Transfer of all services from Oxfordshire Learning Disabilities NHS Trust	18.9		(2.7)	16.2
1 January 2013	The Dudley Group NHS Foundation Trust	Transfer of IT data centre and software from Dudley PCT	1.6	(1.6)	0.0	0.0

Date	Trust	Details of transaction	Assets transferred £m	Cash paid by receiving Trust £m	Liabilities transferred £m	Gain included within SOCl £m
1 February 2013	South Western Ambulance Service NHS Foundation Trust	Transfer of all services from Great Western Ambulance Service NHS Trust	54.6		(19.6)	35.0
<b>Totals</b>			<b>243.0</b>	<b>(2.0)</b>	<b>(49.6)</b>	<b>191.4</b>

Total assets and liabilities transferring do not agree to the sum of individual notes to the Statement of Financial Position within these accounts as not all notes disclose full in year movements (for example receivables and payables).

In addition a £0.7 million transfer of assets between assets between Royal Free London NHS Foundation Trust and University College London Hospitals NHS Foundation Trust has been netted out on consolidation and so does not form part of the disclosure here.

The line for 'transfers under absorption accounting' in the SOCITE totalling £51 million represents the value of revaluation reserves in transferring bodies attributable to the assets transferred to NHS foundation trusts in line with the accounting policy set out in Note 1.1.

In 2011/12 two business combinations were accounted for using full merger accounting principles. Hampshire Hospitals NHS Foundation Trust (formerly Basingstoke and North Hampshire NHS Foundation Trust) acquired the net assets of Winchester and Eastleigh Healthcare NHS Trust on 9 January 2012 and Norfolk and Waveney Mental Health NHS Foundation Trust and Suffolk Mental Health Partnership NHS Trust merged on 3 January 2012 to form Norfolk and Suffolk NHS Foundation Trust. These transactions were accounted for by restating the 1 April 2010 opening statement of financial position in the 2011/12 consolidated NHS Foundation Trust accounts. Further details are provided in note 35 to those accounts.

77 Transforming Community Services (TCS) transactions were also accounted for in 2011/12 using merger accounting principles. In accordance with the exemption for TCS transactions approved by HM Treasury's Financial Reporting Advisory Board, 2010/11 comparatives were not restated but foundation trusts reported a full year of results for 2011/12 for the transferred services and accounted for the merger as at 1 April 2011.

### Note 38 Events after the reporting period

Events after the reporting period which may have a significant impact on the Consolidated NHS Foundation Trust Accounts are:

#### Additional NHS foundation trusts

As at 31 March 2013, there were 145 foundation trusts. Since 31 March 2013, two NHS trusts have been authorised as new NHS foundation trusts:

	Authorised
Kingston Hospital NHS Foundation Trust	1 May 2013
Western Sussex NHS Foundation Trust	1 July 2013

#### PCT Asset Transfers

Under the Health and Social Care Act 2012, Primary care trusts were abolished on 31 March 2013. On 1 April 2013, the assets previously held by these bodies were transferred to other NHS bodies. The following NHS foundation trusts have disclosed the receipts of assets with estimated value £1m or above on 1 April 2013 as events after the reporting period.

NHS foundation trust	Primary Care Trust	Book value of assets transferred £m
Central and North West London NHS Foundation Trust	Camden PCT	16

Central and North West London NHS Foundation Trust	Hillingdon PCT	14
Cumbria Partnership NHS Foundation Trust *	Cumbria Teaching PCT	29
Guy's and St Thomas' Hospital NHS Foundation Trust	Lambeth PCT	38
Lancashire Care NHS Foundation Trust	East Lancashire Teaching PCT	7
Oxford Health NHS Foundation Trust	Oxfordshire PCT	41
Rotherham, Doncaster and South Humber NHS Foundation Trust	Doncaster PCT	4
Rotherham, Doncaster and South Humber NHS Foundation Trust	Rotherham PCT	1
Sheffield Teaching Hospitals NHS Foundation Trust	Sheffield PCT	8
Somerset Partnership NHS Foundation Trust	Somerset PCT	63
Southern Health NHS Foundation Trust	Hampshire PCT	56
South West Yorkshire Partnership NHS Foundation Trust	Barnsley PCT	42
Tees, Esk and Wear Valleys NHS Foundation Trust	North Yorkshire and York PCT	5
University Hospitals Birmingham NHS Foundation Trust	Heart of Birmingham PCT	2
University Hospital of South Manchester NHS Foundation Trust	Manchester PCT	25

\* Cumbria Partnership also became a party to the PFI agreement financing the construction of Workington Hospital when the asset transferred. The forecast outstanding PFI liability as at the date of transfer is £6.7m.

#### Consolidation of NHS charitable funds

From 2013/14, the HM Treasury dispensation to the application of IAS 27 (revised) by NHS foundation trusts in relation to the consolidation of NHS charitable funds is no longer available. NHS foundation trusts will be required to consolidate any material NHS charitable funds which they determine to be subsidiaries in accordance with IAS 27 (revised). This represents a change in accounting policy and in accordance with IAS, prior year comparatives will also be restated. Consolidated information is not currently available to allow an estimate to be made of the impact upon these accounts.

#### Developments in regulation for specific NHS foundation trusts

In April 2013 Monitor appointed Trust Special Administrators (TSAs) to safeguard the future of health services currently provided by Mid Staffordshire NHS Foundation Trust. The appointment of TSAs replaces the Board of Directors and Council of Governors and they are responsible for the running of the Trust, with the executive reporting to them. The TSAs are working with commissioners and other local healthcare organisations to produce a plan for the reorganisation and sustainable delivery of health services. Monitor took the decision to make the appointment after experts in a Contingency Planning Team concluded that the trust was neither clinically nor financially sustainable in its current form. The appointment was made following consultation with the Secretary of State for Health and an order authorising the appointment was laid in Parliament on 15 April 2013. In 2013/14 the financial results for the trust will continue to be consolidated as part of the Consolidated NHS Foundation Trust Accounts.

#### Changes in regulatory environment for NHS foundation trusts

Since 1 April 2013, NHS foundation trusts have been subject to the new licencing regime, under which Monitor issues licences to NHS foundation trusts. These have replaced NHS foundation trusts' terms of authorisation. Monitor's new Risk Assessment Framework is expected to replace the Compliance Framework from October 2013. Under this new regime, the regulatory focus is on the risks associated with continuity of services. While this represents a change in the way NHS foundation trusts are regulated, it is not expected to have a direct material impact on next year's Consolidated NHS Foundation Trust Accounts.

These financial statements were authorised for issue on 3 July 2013 by the Chair and Chief Executive of Monitor.

## Note 39 Related Parties

NHS foundation trusts are public benefit corporations established under the Health and Social Care (Community Health and Standards) Act 2003. The Department of Health is regarded as a related party.

During the period, NHS foundation trusts had a significant number of material transactions with the Department of Health and with other entities for which the Department of Health is regarded as the parent department, i.e. all strategic health authorities, NHS trusts, Primary Care Trusts, NHS agencies and all special health authorities. In addition NHS foundation trusts had a significant number of material transactions with other Government bodies including central and local government bodies. NHS foundation trusts had some transactions with a number of charitable funds and certain of the trustees are also members of the NHS foundation trust boards.

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

	2012/13		2011/12	
	Income	Expenditure	Income	Expenditure
	£m	£m	£m	£m
Value of transactions with board members	1	20	2	22
Value of transactions with key staff members	0	0	0	1
Value of transactions with other related parties				
Department of Health and other NHS bodies	37,047	2,257	34,097	2,321
Charitable Funds	73	4	35	2
Subsidiaries / Associates / Joint Ventures	28	38	30	32
Other	561	1,907	597	2,357
NHS Shared Business Services	14	12	0	21
<b>Total value of transactions with related parties</b>	<b>37,724</b>	<b>4,238</b>	<b>34,761</b>	<b>4,756</b>

	31 March 2013		31 March 2012	
	Receivables	Payables	Receivables	Payables
	£m	£m	£m	£m
Value of balances (other than salary) with board members at 31 March	0	0	0	0
Value of balances (other than salary) with key staff members at 31 March	0	0	0	0
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March	6	0	7	0
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year at 31 March	(1)	0	(1)	0
Value of balances with other related parties at 31 March				
Department of Health and other NHS bodies	954	635	944	798
Charitable Funds	13	0	11	0
Subsidiaries / Associates / Joint Ventures	5	3	3	4
Other	98	430	125	541
NHS Shared Business Services	6	1	0	5
<b>Total balances with related parties at 31 March</b>	<b>1,081</b>	<b>1,069</b>	<b>1,089</b>	<b>1,348</b>



#### Note 40 Losses and special payments

	2012/13		2011/12	
	Number of cases	Value (£m)	Number of cases	Value (£m)
Total losses	60,811	29	48,850	23
Total special payments	6,045	19	5,410	19
Losses and special payments individually greater than £0.1m	21	8	44	6

The total losses disclosed here are higher than the amounts included in the line 'Losses, ex gratia & special payments' in note 6.1 as NHS foundation trusts may include some losses in other lines within that note.

#### Note 41 Third Party Assets

The balance of patients' money held within the NHS foundation trusts' bank accounts at 31 March 2013 was £31 million (31 March 2012, restated: £44 million). This has been excluded from the balance sheet as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

The 31 March 2012 balance has been restated as 11 NHS foundation trusts have identified errors in their reporting to Monitor in 2011/12 for this note which have now been corrected.







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