

Monitor

Making the health sector
work for patients

NHS foundation trusts: consolidated accounts 2013/14



NHS foundation trusts: consolidated accounts 2013/14

Presented to Parliament pursuant to Schedule 8, paragraph 17(7) of the Health and Social Care Act 2012.

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About Monitor

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and procurement, choice and competition operate in the best interests of patients.

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Foreword

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 This Act was largely repealed on 1 March 2007 and re-enacted on that date in a consolidating statute, the National Health Service Act 2006 (the 2006 Act).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

Paragraph 25 of Schedule 7 to the 2006 Act requires each NHS foundation trust to prepare annual accounts for the period beginning with the date on which it is authorised and ending with the following 31 March and for each successive 12 month period, and to submit them to Monitor. These annual accounts must be audited by auditors appointed by the NHS foundation trust's council of governors. The trust must lay a copy of the accounts, and any auditor's report on them, before Parliament.

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. Under the 2012 Act the Secretary of State can direct the content and form of the accounts and also direct Monitor to send the consolidated accounts to the Comptroller and Auditor General for audit. The Secretary of State issued a direction to this effect for 2013/14.

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

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 147 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2014. The dates of authorisation of these and periods of inclusion in the consolidated accounts are as follows:

Authorised on or prior to 1 April 2012 and consolidated for the year ended 31 March 2013 and the year ended 31 March 2014:

- 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 Ormond Street Hospital for Children NHS Foundation Trust
- Great Western Hospitals NHS Foundation Trust
- Greater Manchester West Mental Health NHS Foundation Trust
- Guy's and St Thomas' NHS Foundation Trust
- Hampshire Hospitals NHS Foundation Trust
- Harrogate and District NHS Foundation Trust
- Heart of England NHS Foundation Trust
- 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
- 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
- North East Ambulance Service NHS Foundation Trust
- North East London NHS Foundation Trust
- North Essex Partnership University NHS Foundation Trust
- North Tees and Hartlepool NHS Foundation Trust
- Northamptonshire Healthcare NHS Foundation Trust
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Northumberland, Tyne and Wear NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Oxford Health NHS Foundation Trust
- Oxleas NHS Foundation Trust
- Papworth Hospital NHS Foundation Trust
- Pennine Care NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Poole Hospital NHS Foundation Trust
- Queen Victoria Hospital NHS Foundation Trust
- Rotherham Doncaster and South Humber NHS Foundation Trust
- Royal Berkshire NHS Foundation Trust
- Royal Brompton and Harefield NHS Foundation Trust
- Royal Devon and Exeter NHS Foundation Trust
- Royal Free London NHS Foundation Trust
- Royal 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 and Social Care NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Somerset Partnership NHS Foundation Trust
- South Central Ambulance Service NHS Foundation Trust
- South 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 Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust
- The Rotherham NHS Foundation Trust
- The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust
- The Royal Marsden NHS Foundation Trust
- The Royal Orthopaedic Hospital NHS Foundation Trust
- The Walton Centre NHS Foundation Trust
- University College London Hospitals NHS Foundation Trust
- University Hospital of South Manchester NHS Foundation Trust
- University Hospitals Birmingham NHS Foundation Trust
- University Hospitals Bristol NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- University Hospital Southampton NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust
- West Suffolk NHS Foundation Trust
- Wirral University Teaching Hospital NHS Foundation Trust
- Wrightington, Wigan and Leigh NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust
- York Teaching Hospital NHS Foundation Trust

Authorised 1 January 2013 and consolidated for the three month period ended 31 March 2013 and the year ended 31 March 2014:

- West Midlands Ambulance Service NHS Foundation Trust

Authorised 1 May 2013 and consolidated for the eleven month period ended 31 March 2014:

- Kingston Hospital NHS Foundation Trust

Authorised 1 July 2013 and consolidated for the nine month period ended 31 March 2014:

- Western Sussex Hospitals NHS Foundation Trust

Review of NHS foundation trust financial performance 2013/14

The NHS foundation trust sector has delivered a surplus before impairments and gains/(losses) on transfers by absorption for the year ended 31 March 2014 of £134 million (2012/13 restated: £500 million) and held cash of £4.3 billion as at 31 March 2014 (31 March 2013 restated: £4.6 billion), a decrease of £0.3 billion.

Some comparative figures within this commentary have been restated in line with the consolidated accounts following a change of accounting policy and the subsequent consolidation of charitable funds. Charitable funds are immaterial to the sector as a whole, contributing an aggregate surplus of £10 million and net assets of £339 million on consolidation. Further details of this restatement are included in Note 38 of these accounts.

In 2013/14 the operating environment faced by the NHS foundation trust sector continued to be challenging with a tariff efficiency savings target of 4%, contributing to a 1.3% tariff deflation, together with increasing cost pressures caused by a drive to increase clinical staffing to meet the quality recommendations of the Keogh and Francis reports.

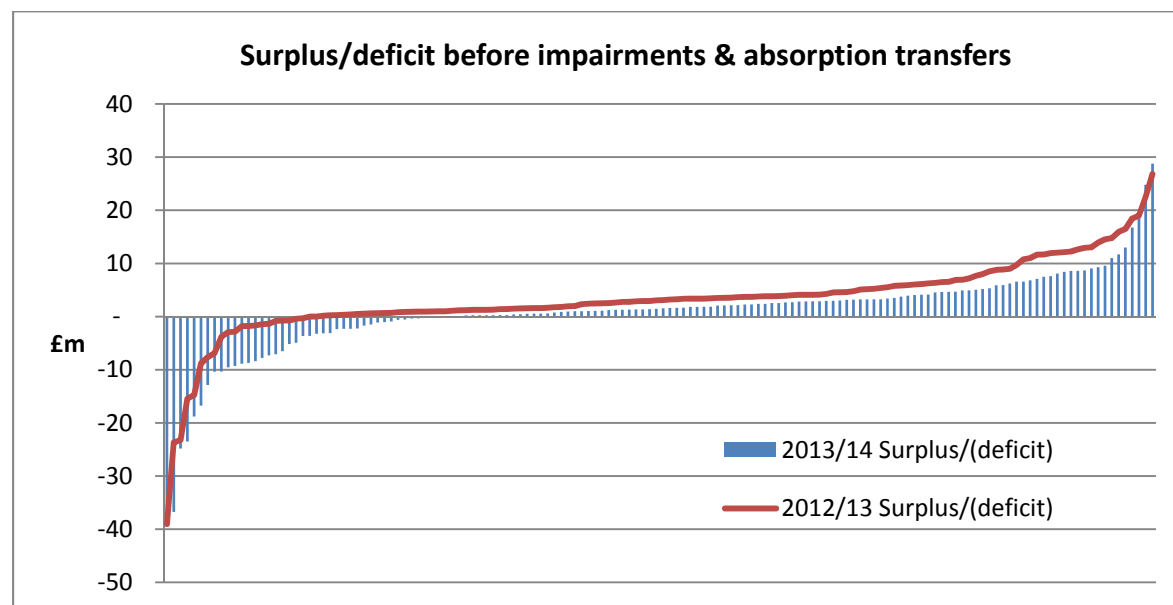
The table below shows the profile of NHS foundation trusts that make up the sector at 31 March 2014:

	Acute	Mental Health	Ambulance	Specialist	Charitable funds	Total
Number of foundation trusts	83	41	5	18	*	147
% of sector turnover	71.00%	19.77%	2.16%	7.05%	0.03%	100%
EBITDA margin	4.9%	5.3%	6.3%	7.4%	N/A	5.2%
Surplus/(deficit) before impairments and transfers (£m)	(111)	114	9	112	10	134

*In 2013/14, in accordance with the accounting policies set out in Note 1, 53 foundation trusts have consolidated NHS charitable funds into their accounts as the foundation trust has power to govern the financial and operational activities of the charitable fund and benefits from its activities. The results of these charitable funds are now included within the consolidated NHS foundation trust sector results.

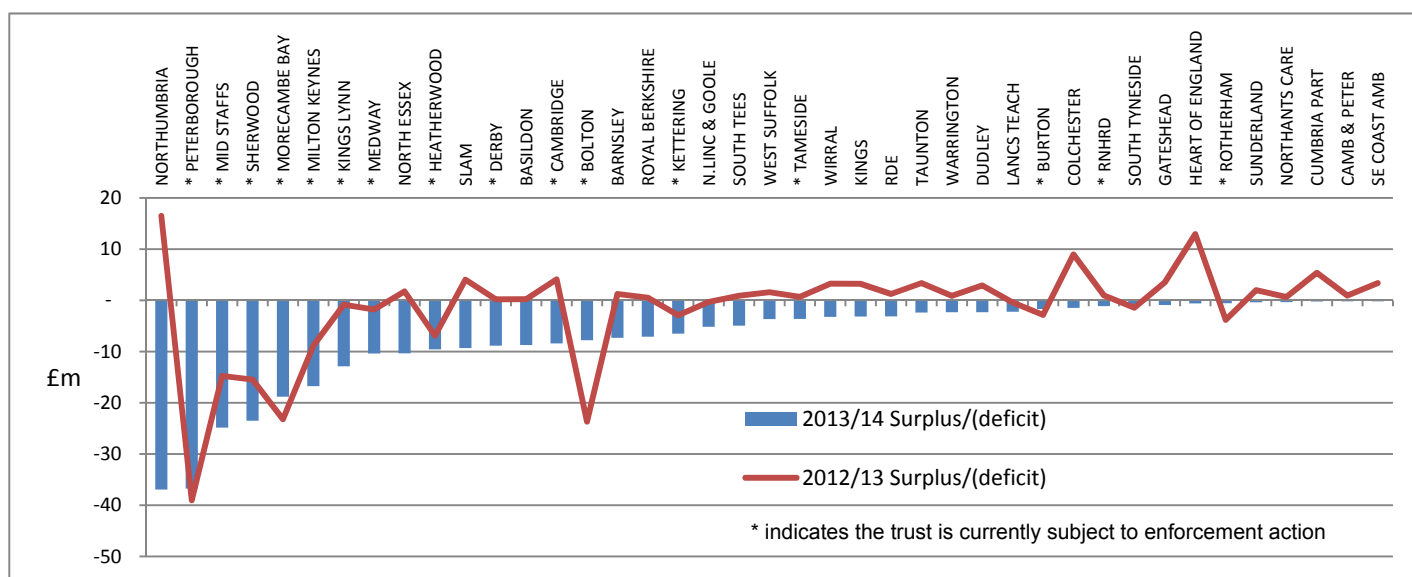
Unlike NHS trusts, NHS foundation trusts are not required to break even in every year. An in-year deficit may arise from the investment of previous surpluses or financial conditions in that particular year. The results for the year show that, excluding the consolidation of charitable funds, 106 (72%) (2012/13: 124 (80%)) of NHS foundation trusts delivered a surplus or broke even and 41 trusts reported a deficit before impairments and transfers by absorption. The number of foundation trusts in deficit has almost doubled from 21 in 2012/13. The gross deficit of all foundation trusts in deficit for 2013/14 was £309 million (2012/13: £160 million). The

fall in the value of reported surpluses across NHS foundation trusts (£225 million) has impacted the sector financial performance more significantly than the growth in the gross deficit (£149 million).



This decline can also be seen in the EBITDA margin (earnings before interest, tax, depreciation and amortisation) which has fallen from 6.0% in 2012/13 to 5.2% in 2013/14. Trusts' failure to deliver against annual cost improvement plans and increasing cost pressures are contributing this decline.

Of the 41 trusts recording a deficit for 2013/14, 16 were subject to regulatory action as at 31 March 2014 in relation to finance or financial governance concerns. These 16 trusts make up 62% of the reported gross deficit value. The largest deficits included £37 million at Peterborough and Stamford Hospitals NHS Foundation Trust, which continues to face financial challenge from significant private finance initiative (PFI) commitments. Northumbria Healthcare NHS Foundation Trust also reported a £37 million deficit as a result of one-off charges on terminating a PFI scheme. The cost is expected to be offset by reduced financing costs in future periods associated with the loan taken out to fund this transaction.



Ten of these trusts received cash payments from the Department of Health in 2013/14 to support the continued provision of patient care, in the form of Public Dividend Capital (PDC). In addition King's College Hospital NHS Foundation Trust also received transitional PFI support for its acquisition of Princess Royal University Hospital in the form of PDC.

The financial statements of thirteen of these deficit trusts also received audit opinions containing an emphasis of matter paragraph in relation to going concern or financial performance. These trusts are listed in note 1.23 to these accounts. All NHS foundation trust financial statements have been prepared on a going concern basis and received unqualified true and fair audit opinions.

Regulatory performance

In 2013/14 Monitor published its *Risk Assessment Framework*, which replaced the *Compliance Framework* on 1 October 2013 as a means of assessing NHS foundation trusts' compliance with the continuity of service and foundation trust governance requirements of the NHS provider licence. The governance risk rating reflects Monitor's degree of concern over how the trust is run and any regulatory action currently being undertaken. The continuity of service risk rating (CoSRR) is Monitor's measure of financial sustainability risk. Monitor's risk ratings are calculated using foundation trust finance data excluding charitable funds. At 31 March 2014, the sector had the following risk profile where 4 represents the lowest risk and 1 represents the highest risk. A low CoSRR does not necessarily indicate a breach of the trust's provider licence. For comparison this is presented against a retrospective shadow rating for 31 March 2013, which was prior to the implementation of the *Risk Assessment Framework*.

		At 31 March 2014		At 31 March 2013 (shadow rating)	
		Number of trusts	% of sector	Number of trusts	% of sector
Continuity of service risk rating	4	92	63%	109	75%
	3	35	23%	17	12%
	2	10	7%	10	7%
	1	10	7%	9	6%
	Total	147	100%	145	100%

Over the twelve months to 31 March 2014, the proportion of trusts rated as 1 or 2 and therefore being exposed to the greatest levels of financial risk based on their year to date performance has remained largely unchanged. However increased financial pressure on the sector has led to many trusts shifting from CoSRR 4 to 3 such that more trusts may be subject to increased levels of financial monitoring. Subsequent forward risk ratings calculated on trust annual plans data show an increased risk of financial decline in 2014/15. At 31 March 2014, 100% of

ambulance trusts, 94% of specialist trusts and 80% of mental health trusts have a CoSRR of 4 indicating that the greatest levels of financial risk exist in the acute sector.

Continuity of service and governance risk ratings are intended to indicate significant risks to financial sustainability or poor governance of a provider which endanger the continuity of essential patient services. Where such risks are identified, Monitor may decide to undertake an investigation to determine whether regulatory action should be taken. As at 31 March 2014, 27 NHS foundation trusts were subject to enforcement action by Monitor (19 as at 31 March 2013). Further information on governance risk ratings and enforcement action taken by Monitor in 2013/14 is detailed in the consolidated Annual Governance Statement.

During 2013/14, Monitor, the NHS Trust Development Authority (TDA) and the Care Quality Commission (CQC) implemented the special measures regime. In July 2013, following completion of the Keogh Review into hospitals with higher than average mortality rates, failures were identified in the quality of care at 6 foundation trusts who were then placed into special measures by Monitor. Under special measures, trusts are provided with support to improve levels of patient care including partnering with a high performing NHS foundation trust and appointing an improvement director. In addition to this first tranche, a further three foundation trusts have been placed into Special Measures following recommendations from the CQC. Basildon and Thurrock University Hospitals NHS Foundation Trust was the first trust to be removed from special measures in June 2014, after making improvements in services for patients.

In 2013/14 Monitor implemented its regime for addressing issues faced by NHS foundation trusts in financial distress. In February 2013 Monitor concluded that following persistent poor financial performance, Peterborough and Stamford Hospitals NHS Foundation Trust was unable to deliver a turnaround plan to return to standalone financial sustainability and appointed a contingency planning team (CPT). The CPT assessed the sustainability of the trust and the options for recovery, and made recommendations on the approach to secure recovery. In September 2013 Monitor secured a formal agreement from the trust to implement a recovery plan which is designed to secure vital services for patients and substantially close the annual £40 million financial gap.

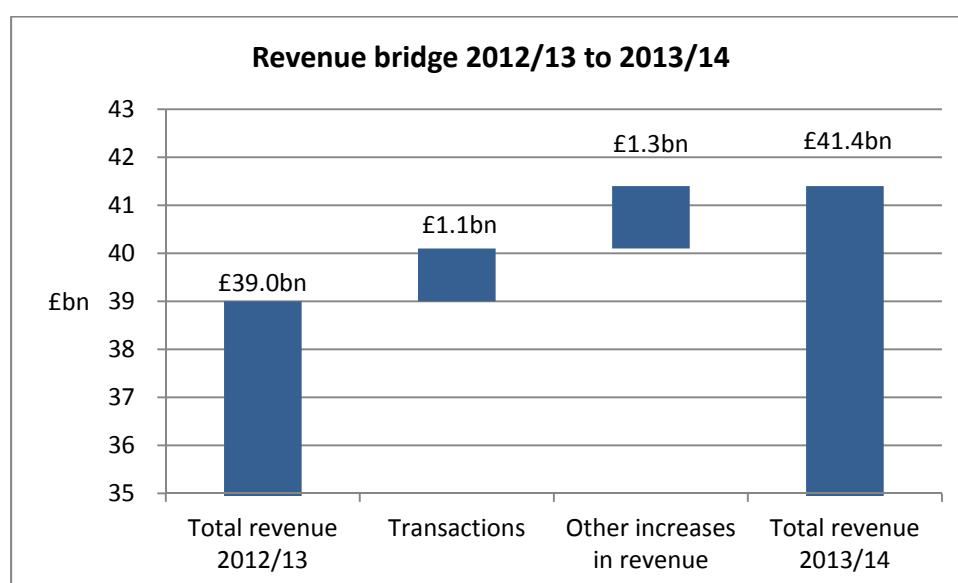
In April 2013, Monitor appointed a Trust Special Administrator (TSA) to Mid Staffordshire NHS Foundation Trust, after a CPT concluded that the trust was clinically and financially unsustainable in its current form. In January 2014 Monitor agreed the TSA's proposed dissolution of the trust and passed recommendations for the continued provision of essential services to patients across Staffordshire to the Secretary of State for Health. In February 2014, the Secretary of State for Health accepted the recommendations and approved the dissolution of the trust. More

information on both trusts is provided in the consolidated Annual Governance Statement included in these accounts.

Operating Performance

Operating income

In the year to 31 March 2014, 147 NHS foundation trusts generated total operating revenues of £41.4 billion, an increase of £2.4 billion (6.2%) compared with the previous year. Approximately 20% (£0.5 billion) of the £2.4 billion increase was driven by the authorisation of Kingston Hospital NHS Foundation Trust and Western Sussex Hospitals NHS Foundation Trust during the year. A further 6% (£0.2 billion) is the full year impact of West Midlands Ambulance Service NHS Foundation Trust authorised during 2012/13. 18% (£0.4 billion) resulted from the transfer of services to NHS foundation trusts from other NHS bodies in 2013/14 and the full year impact of services which transferred in the prior year. Other increases in revenue are driven largely by specialist activity as well as more reimbursement of high cost drugs, changes in case mix, funding for winter pressures and changes in clinical staffing.



EBITDA

In aggregate, EBITDA (earnings before interest, tax, depreciation and amortisation excluding impairments) as a proportion of turnover, which is a proxy for overall operating efficiency, decreased from 6.0% in 2012/13 to 5.2% in 2013/14. Deterioration in margins is seen across almost all of the sector, with the exception of specialist trusts which continue to maintain margins in excess of 7% in aggregate.

EBITDA margins*	2013/14	2012/13
Acute	4.9%	5.8%
Mental Health	5.3%	5.9%
Ambulance	6.3%	7.6%
Specialist	7.4%	7.2%

*excludes the consolidation of charitable funds to represent the underlying operational efficiency of each sector

Small acute NHS foundation trusts have suffered the largest decline and similarly ambulance trusts have seen a fall in margins by over 1% since 2012/13. This may reflect smaller trusts being less able to absorb additional cost pressures. In contrast, specialist trusts, which planned the lowest efficiency targets for 2013/14 and may be less affected by fluctuations in emergency and non-elective demand, are the only sector to report improved margins in 2013/14.

Pay cost pressures remain a focus across the sector with continued premium costs being incurred from the use of agency and contract staff (increased 23% in 2013/14) as foundation trusts continue to cite difficulties in recruiting to permanent posts. This was exacerbated by the impact of increasing clinical staffing ratios following the Keogh and Francis reviews and continues to dilute EBITDA margins across all trusts, particularly in the acute sector.

There has also been an increase in the numbers of staff employed by NHS foundation trusts as measured in average whole time equivalents (WTE). Excluding the impact of newly authorised NHS foundation trusts, aggregate staff numbers have increased by 4% or circa 23,000 WTEs in 2013/14 compared to the previous year. Trusts attribute less than half of this increase to activity growth or service development suggesting that improving quality and patient safety is a key driver of staffing increases.

Following the increased public interest in severance packages paid to senior NHS staff, all NHS bodies are now required to publish additional information in relation to exit packages with their annual report and accounts. A consolidation of disclosures reported by NHS foundation trusts is included in these accounts and shows NHS foundation trusts agreed 3,035 compulsory and other departures costing a total of £92 million during the year.

Surplus before impairment and gains/(losses) from transfers by absorption

Total surplus before impairments and gains/losses from transfers by absorption was £134 million, which as a percentage of operating income before impairments for all NHS foundation trusts was 0.3% (2012/13 restated: £500 million, 1.3%). Excluding the impact of consolidated charitable funds, acute trusts are the only sector to record a net deficit in aggregate with a surplus margin before impairments and absorption transfers of -0.4% which has deteriorated from 0.7% in 2012/13. Mental health,

ambulance and specialist trusts have also all recorded declining margins of 1.4%, 1.0% and 3.8% in 2013/14 (2012/13 restated: 2.1%, 1.3% and 3.9%).

Impact of impairments

Impairments to the carrying value of assets are charged to operating surplus except where previous revaluation surpluses remain, and a reduction is recognised in the revaluation reserve to the extent of the remaining surplus. Where impairments are the result of a permanent loss, such as fire damage, such impairments are always charged to expenditure. In 2013/14 net impairments charged to income and expenditure were £369 million (2012/13: £615 million). A further £215 million of net impairments were charged to reserves (2012/13: £331 million), reducing previously recognised revaluation surpluses. 98 NHS foundation trusts recorded a net impairment within surplus for the year in 2013/14 compared with 113 in the previous year.

Of the £369 million of net impairments charged to income and expenditure, £228 million arise from changes in market price. These impairments reflect market conditions at the time of valuation. Market price net impairments were £470 million in 2012/13. This reduction in net impairments is largely attributable to a greater amount of impairment reversals in 2013/14: that is, the conditions that led to an impairment previously being recognised no longer apply. This is driven by increases in land/building market prices in some regions. Further net impairments recognised include impairments arising from management actions (for example decommissioning sites or wards, changes in use, or over-specification). Details are provided in note 19.

Surplus for the year before other comprehensive income

In 2013/14 NHS foundation trusts recorded a total deficit after impairments and transfers by absorption of £146 million compared with a restated surplus of £76 million in 2012/13. NHS foundation trusts recognise a gain or loss on transfers by absorption where a function or service has transferred from or to another NHS or local government body in year, excluding transfers from demised Primary Care Trusts and Strategic Health Authorities. The value of any net assets transferring is recognised within surplus for the year as a gain or loss on transfer. In 2013/14 four foundation trusts recognised transfers under normal absorption rules and a net absorption gain within surplus of £89 million (2012/13: £191 million). Further details of these transferred services are provided in Note 39 of these accounts.

Total comprehensive income for the year

Total comprehensive income was £983 million in 2013/14 compared with total comprehensive expense of £35 million in 2012/13 (restated). The increase in other comprehensive income is driven mainly by £705 million of gains arising on modified

absorption transfers. These gains relate to the transfer of assets from Primary Care Trusts and Strategic Health Authorities following the NHS reorganisation which occurred on 1 April 2013. In accordance with an HM Treasury approved adaptation to the absorption accounting rules, these gains are recognised directly in other comprehensive income. Further increases in other comprehensive income result from a reduction in impairments charged to reserves and an increase in revaluation gains recognised in year.

Net finance costs

Net finance costs increased by £43 million in the year, from £802 million in 2012/13 (restated) to £845 million in 2013/14. This increase included interest costs associated with the PFI financed Princess Royal University Hospital which was acquired by King's College Hospital NHS Foundation Trust during the year following the dissolution of South London Healthcare NHS Trust. Further increases included additional interest costs associated with existing PFI schemes and the inclusion of PFI costs at Kingston Hospital NHS Foundation Trust which was authorised in 2013/14.

NHS foundation trusts have recorded a relative saving in PDC dividends paid in 2013/14 (as a proportion of operating income). This is largely due to changes in methodology for calculating the dividend payable in 2013/14, the effect of which outweighs the impact of higher receivable balances due from commissioners at 31 March 2014 which would otherwise serve to increase the PDC dividend payment.

Increased levels of loan funding from the Department of Health's Independent Trust Financing Facility (ITFF), which have risen by £418 million between 31 March 2013 and 31 March 2014, have also resulted in a £7 million (19%) increase in interest payments in 2013/14.

Cash balances and borrowing

Total cash balances amounted to £4.3 billion as at 31 March 2014 (31 March 2013 restated: £4.6 billion), a decrease of £0.3 billion, despite the authorisation of two new NHS foundation trusts in year. This is in contrast with previous years when the NHS foundation trust sector as a whole has consistently recognised a net increase in cash balances. The decrease is primarily driven by a decline in operating surplus of £0.1 billion, unfavourable movements in working capital and increased capital expenditure. This cash balance is equivalent to five weeks' operating costs in a sector with annual turnover of £41 billion (2012/13: six weeks).

The net adverse movement in working capital during the year was £462 million, a contrast to the £179 million favourable movement seen in 2012/13 (restated). Of the total cash balance, £3.9 billion was held with the Government Banking Service and £0.4 billion was held elsewhere at the year end. £0.1 billion of the total cash figure

was held by charitable funds and not available to support operating costs within NHS foundation trusts.

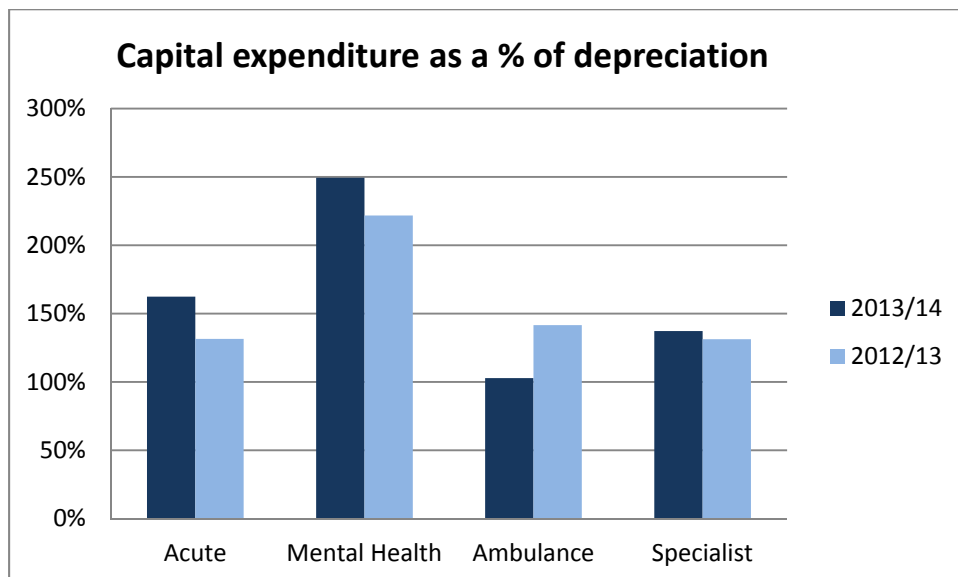
The number of receivable days increased significantly to 20.1 days (2012/13 restated: 14.5 days), whilst payable days remained broadly consistent at 34.3 days (2012/13 33.5). The increase in trade receivables, largely arising in balances due from commissioners, far outweighs the increase in trade and other payables, posing further liquidity pressure on some trusts.

Total long term and working capital borrowing at 31 March 2014 was £6.3 billion (31 March 2013: £5.6 billion). Of the £6.3 billion, £4.4 billion relates to outstanding PFI liabilities (31 March 2013: £4.3 billion) and £1.7 billion is loan funding (31 March 2013: £1.2 billion) and a further £0.1 billion relates to finance leases (31 March 2013: £0.1 billion). The overall increase in borrowings is driven primarily by new loans from the Independent Trust Financing Facility (ITFF).

Capital expenditure

Total purchases of property, plant and equipment (PPE) and intangible assets were £2.0 billion (2012/13: £1.6 billion). While no PFI schemes or individually significant constructions have been completed in 2013/14, the increase in capital expenditure represents a sustained investment in healthcare facilities across the sector including the bone marrow transplant unit of the Haematology and Oncology Centre development at University Hospitals Bristol NHS Foundation Trust which was completed in March 2014 and the new endoscopy unit which opened in May 2013 at Guy's and St Thomas' NHS foundation Trust.

There are also schemes in the course of construction across the sector with a current capital value of £988 million which will bring benefits to patients in future years. This includes major developments such as the Alder Hey in the Park project to replace the existing children's hospital with an entirely new development surrounded by parkland and the £160 million specialist emergency care hospital at Northumbria Healthcare NHS Foundation Trust. Receipts from the sale of assets in 2013/14 amounted to £130 million (2012/13: £77 million). Mental health trusts generated the largest proportion of this increase which is consistent with their continued rationalisation of large estates.



NHS foundation trusts continue to invest in their estates at levels significantly in excess of the depreciation charges in year. On average, NHS foundation trust capital expenditure was 170% of the depreciation charged (2012/13: 143%). Mental health trusts continue to make the largest investment as a proportion of depreciation charged reflecting the necessary updating and rationalisation of their estates to enable the continued provision of high quality patient care.

Events after the reporting period

The trust board and council of governors of Royal Free London NHS Foundation Trust have approved the acquisition of Barnet and Chase Farm Hospitals NHS Trust, which currently has annual income of £360 million. Subject to the approval of the Secretary of State, from 1 July 2014, Barnet Hospital and Chase Farm Hospital will be part of the Royal Free London NHS Foundation Trust.

Looking forward

In 2013/14 NHS foundation trusts have experienced increasing financial pressures, including a national efficiency requirement of 4%, increasing demand for services and a focus on improving standards of patient care across the NHS. The challenges facing the sector are anticipated to continue into 2014/15, requiring trusts to find additional efficiencies to compensate for the increasingly difficult economic conditions and the additional demands on services that arise from an aging population.

In order to tackle these challenges, providers will need to focus on their strengths in areas that will drive long term performance improvement and in doing so will need to equip their organisations and their leaders with the capability to address the scale of change required, delivering new business models to bring about an integrated NHS.

Funding increases will probably continue to be limited, and innovation will be needed across local health economies. Local providers and commissioners will need to be supported by the work of national health bodies such as Monitor, the TDA and NHS England to lower the barriers to delivering necessary change and innovation in health care.

Dr David Bennett
Chief Executive
2 July 2014

Statement of responsibilities and accountability framework

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

- 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;
- accounting officers to ensure that the use of public funds complies with the relevant legislation, delegated authorities and guidance; 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 not transferred within the public sector).

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

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

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

Annual Governance Statement

This Annual Governance Statement (AGS) for the NHS foundation trust sector has been prepared in the context of the accountability framework set out above. It has been prepared as a consolidation of the sector position based on reference to (i) Monitor's enforcement action, (ii) disclosures in local annual governance statements and (iii) the audit report issued by local external auditors.

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 Trust 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 and ensure compliance with legal and other obligations on Monitor and NHS foundation trusts. 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 own council of governors to ensure the truth and fairness of each set of accounts that have been consolidated into these accounts. These auditors have each undertaken an audit in accordance with the *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; and
- consideration by Monitor's management and Audit and Risk Committee of the consolidated accounts and the processes established to derive them.

In addition the Comptroller and Auditor General is appointed by statute to undertake an audit of the consolidated accounts presented in this report.

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 2014. 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: comments by NHS foundation trusts

Individual foundation trusts generally reported continued improvement in their internal control systems during the year but a number of trusts have disclosed significant internal control issues, often linked to enforcement action taken by Monitor.

The most prevalent general theme has been quality governance, with 41% of the sector disclosing that they have had an additional focus on this aspect of their internal control during the year. Foundation trusts have also disclosed a focus on improving the achievement of key healthcare targets, on risk identification and management and on information governance arrangements. Many trusts have stated the importance of the Francis Report and Keogh reviews and the impact on patient care.

Governance

On 1 April 2013, NHS foundation trusts became subject to a new licensing regime which replaced NHS foundation trusts' terms of authorisation. Between 1 April 2013 and 30 September 2013, Monitor continued to oversee NHS foundation trusts' compliance with the governance and continuity of services requirements of their provider licence through use of the *Compliance Framework*. Under the *Compliance Framework*, foundation trusts were assigned a quarterly governance risk rating on a scale from 'green' to 'red', the latter being the rating of greatest concern.

On 1 October 2013 Monitor's *Risk Assessment Framework* (RAF) replaced the *Compliance Framework*. Under the RAF, foundation trusts are assigned a green rating if there are no material governance concerns evident. Where potential material concerns have been identified which Monitor is investigating, the trust is described as 'under review'. Trusts currently subject to formal regulatory action are assigned a red rating. As a measure of current regulatory concern, governance ratings were reported to Monitor's board under this framework from the end of quarter 2 onwards.

Monitor publishes risk ratings on a quarterly basis. During 2013/14 the quarterly governance risk ratings assigned to NHS foundation trusts were as follows:

1 October 2013 – 31 March 2014 <i>Risk Assessment Framework</i>				1 April – 30 September 2013 <i>Compliance Framework</i>	
	Q4	Q3	Q2		Q1
Green	106	109	105	Green	76
Under review	12	12	19	Amber-Green	20
Red	29*	26	23	Amber-Red	20
				Red	30
Total	147	147	147	Total	146

* Includes two additional foundation trusts found in breach of licence conditions in 2014/15 prior to the approval of Q4 risk ratings.

Under the *Compliance Framework* trusts being formally investigated for potential breach of licence conditions were rated red, whereas under the RAF only those subject to formal regulatory action are rated red.

Continuity of services

From 1 April 2013 to 30 September 2013 under the *Compliance Framework*, Monitor assessed a trust's likelihood of breaching its continuity of service licence conditions with a Financial Risk Rating (FRR). A rating of 5 reflected the lowest level of financial risk and a rating of 1 the highest.

From 1 October 2013 (beginning of quarter 3), the RAF was applied and the risk to financial sustainability and continued provision of essential services was assessed by assigning trusts a Continuity of Services Risk Rating (CoSRR). A rating of 1 to 4 reflects the degree of financial concern where 4 is the lowest level of risk.

Over the course of 2013/14, Monitor assigned FRRs and subsequently CoSRRs to NHS foundation trusts as follows:

1 October 2013 – 31 March 2014 <i>Risk Assessment Framework (CoSRR)</i>			1 April 2013 – 30 September 2013 <i>Compliance Framework (FRR)</i>		
	Q4	Q3		Q2	Q1
4	92	96	5	9	10
3	35	29	4	35	33
2	10	15	3	82	82
1	10	7	2	12	10
Total	147	147	Total	147	146

A low CoSRR does not necessarily imply the trust is in breach of its licence. Rather, it reflects the degree of financial concern Monitor may have in relation to that provider and consequently the frequency of in-year financial monitoring.

NHS foundation trusts in breach of licence conditions:

During 2013/14 Monitor's Board decided to take enforcement action against 8 foundation trusts and continued to monitor the progress of a further 19 NHS foundation trusts subject to existing enforcement action. No NHS foundation trusts were wholly removed from enforcement action during 2013/14. This does not include investigations of potential licence breaches which did not result in Monitor taking any enforcement action.

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

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

The Health and Social Care Act 2012 also 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 financial distress.

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

The following NHS foundation trusts have been subject to enforcement action by Monitor during the year. Monitor's enforcement action can be categorised as relating to:

- finance;
- governance; or
- finance and governance.

Monitor taking enforcement action at an NHS foundation trust would normally indicate the existence of control weaknesses or failings in the control environment at the trust. Details of each case are provided below.

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 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 replicated here.

24 NHS foundation trusts received qualified audit certificates from their external auditors for the year ended 31 March 2014 where the auditors were not satisfied that the trust had put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. These are set out as part of the disclosures below.

Finance

- 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 ongoing financial sustainability. The trust was issued with its provider licence in April 2013 and the Monitor accepted enforcement undertakings from the trust relating to its financial position. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed the risks in 2014/15 which result from the trust's financial position. The trust also provides details of a strategic plan submitted in line with Monitor's enforcement undertakings in October 2013 and the work performed by the trust with Monitor and the local health economy to agree the optimum strategic solution to ensure continuity of services within the requirements of patient benefit and value for money.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

Governance

- Aintree University Hospital NHS Foundation Trust: In November 2013 Monitor accepted enforcement undertakings from the trust relating to governance concerns including the trust's failure to comply with a healthcare target. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed the progress it has

made in delivering on its commitments under the terms of this enforcement action.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Basildon and Thurrock University Hospitals NHS Foundation Trust: 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. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to governance concerns including the trust's failure to comply with certain healthcare targets. In July 2013 a review by Professor Sir Bruce Keogh identified concerns over the quality of care and treatment provided and these findings were consistent with the action already being taken by Monitor. The trust was placed in special measures at this time. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance. The trust was subsequently removed from special measures in June 2014.

In its annual governance statement the trust has provided details of an external review of quality governance commissioned during the year, the key findings, and the actions taken in response to them. The trust has commented that it is progressing well against its agreed undertakings and is on track to deliver the required improvements within the agreed timescales.

- Calderstones Partnership NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to quality governance issues. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has highlighted the future transformational programmes needed to ensure future resilience and sustainability including implementing a revised Board Assurance Framework (BAF) to ensure good governance.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Christie NHS Foundation Trust: In March 2014 Monitor imposed discretionary requirements on the trust for governance breaches relating to

effectiveness of the board. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed the action it has taken since the year end to address concerns about board effectiveness set out in Monitor's enforcement action.

- Colchester Hospital University NHS Foundation Trust: In November 2013 Monitor imposed discretionary requirements on the trust following a CQC report identifying governance issues relating to cancer services and the trust was placed in special measures. At the same time Monitor imposed an additional licence condition on the trust requiring it to ensure it has an effective board, board committees and management to enable it to resolve the governance issues. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has disclosed that it is putting in place sustainable systems and processes in order to address the issues within the CQC report identifying governance issues relating to cancer services which highlighted significant control issues in relation to cancer waiting time data.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor and the trust being put into special measures.

- Cumbria Partnership NHS Foundation Trust: In January 2014 Monitor accepted enforcement undertakings from the trust relating to quality governance issues and a CQC warning notice. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed that action has been taken to deal with the concerns identified at the Ramsey Unit by the CQC and the trust is now compliant with all CQC outcomes.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Dorset HealthCare University NHS Foundation Trust: In April 2013 Monitor accepted enforcement undertakings from the trust relating to governance and

quality issues. In September 2013 Monitor imposed an additional licence condition on the trust requiring the trust to ensure its board, committees and council of governors are operating effectively and subsequently required the trust to appoint an interim Chair. At the year end the trust remained subject to this enforcement action. In June 2014, following improvements in board governance, Monitor removed the trust's additional licence condition and issued a notice of compliance for the trust's enforcement undertakings.

In its annual governance statement the trust has provided details of the trust's strengthening of its Quality Assurance Committee to seek to address the trust's quality and governance issues, and a new Board sub-committee to oversee finance, investment and performance. The trust also provides details of how it has strengthened the Council of Governors and improvements in how it monitors implementation of CQC action plans but that it has more to do to strengthen assurance systems.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Heart of England NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to governance concerns including the trust's failure to comply with a healthcare target. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed that compliance with healthcare targets was a control weakness during the year.

- Northern Lincolnshire and Goole NHS Foundation Trust: In August 2013 Monitor accepted enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment provided and the trust was placed in special measures. Monitor also imposed an additional licence condition on the trust for it to ensure it has an effective board, board committees and management to enable it to resolve the governance issues. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed that good progress has been made against the action plan put in place following the trust being put in special measures and that mortality rate improvement remains the trust's foremost priority. It also says that following an external review, a revised clinical leadership structure was put in place in January 2014.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in

place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Southend University Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in December 2011 as a result of governance concerns including the trust's failure to comply with certain healthcare targets. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust for the same issues. At the year end the trust remained subject to this enforcement action. In June 2014, following further failures to meet healthcare targets, Monitor imposed discretionary requirements on the trust relating to governance concerns and imposed an additional licence condition for the trust to ensure it has in place an effectively functioning board to enable it to resolve its governance issues.

In its annual governance statement the trust has disclosed that legacy issues arising from an aged estate, staffing issues, financial limitations and difficulties arising from the local health economy have impacted the trust are coupled with the trust's difficulty in meeting its cost improvement targets.

- Stockport NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in January 2013 as a result of governance concerns including the trust's failure to comply with a healthcare target. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust for the same issues. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed that it has made progress but that there is a continued risk of not achieving the A&E target, driven in part by difficulties in securing substantive senior medical posts.

Finance and Governance

- 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. In August 2012 Monitor took further regulatory action following concerns about the trust's financial position, in addition to previous concerns. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to healthcare target breaches, arising subsequent to the original decision to find the trust in breach and quality governance concerns. At the same time Monitor imposed discretionary requirements on the trust for healthcare target breaches, board governance and concerns over financial planning. At the year end the trust remained subject to this enforcement

action.

In its annual governance statement the trust has disclosed the actions it has taken in relation to these issues, including reviews of governance, Board and committee structures and reporting lines, implementation of a new integrated performance report, achievement of some previously breached health care targets, implementing a financial improvement programme, enhancing stakeholder engagement, and other changes. The trust has disclosed significant internal control issues of (i) a loss of medical samples, (ii) governance, (iii) financial governance, (iv) breach of a health care target, and (v) a limited assurance head of internal audit opinion.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Burton Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in November 2011 due to the trust's financial position and associated governance issues. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to board governance and financial planning. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment provided and the trust was placed in special measures. Monitor also imposed an additional licence condition on the trust for it to ensure it has an effective board, board committees and management to enable it to resolve the governance issues.. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has provided details of the external reviews commissioned during the year to review progress against previous recommendations relating to board effectiveness and financial governance, and to review the trust's quality governance arrangements.

- Cambridge University Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in November 2012 for governance concerns including failing to meet healthcare targets and poor financial performance. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to failure to meet healthcare targets and financial planning concerns. At the year end the trust remained subject to this enforcement action. In July 2014 Monitor lifted this enforcement action and assessed that the trust was no longer in breach of its licence.

In its annual governance statement the trust has disclosed that in response to its financial position it implemented a financial recovery plan and Cost Improvement Programme which was over-delivered on for the year. The trust established a taskforce in response to the healthcare target breaches to manage and implement recommendations arising from independent reviews. The trust disclosed its improvement against meeting key targets by the end of the year but that challenges to ensuring full compliance still remain. The trust also disclosed the results of an independent review of board effectiveness and the changes it enacted as a result.

The external auditor has concluded that it is satisfied that the trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and has included an emphasis of matter in the audit report to draw attention to the circumstances around this conclusion.

- Derby Hospitals NHS Foundation Trust: Monitor found the trust to be in significant breach of its terms of authorisation in January 2012 due to the trust's financial position and associated governance issues. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to failure to meet a healthcare target and financial planning concerns. In October 2013 Monitor imposed an additional licence condition for the trust to ensure it has in place sufficient Board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to ensure it is able to resolve healthcare target and financial planning issues. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed that its weakened financial performance is due to increased activity. The trust will also will re-launch its Quality Strategy to further improve quality over the next five years.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- 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. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to its financial position. In July 2013 and January 2014 Monitor accepted additional enforcement undertakings from the trust relating to governance and quality of care following CQC warning notices being served on the trust. At the year end the trust remained subject to this enforcement action and was placed in special measures in May 2014 for failings in patient care and governance.

In its annual governance statement the trust has disclosed that historical difficulties in relation to financial management and workforce culture has reduced the effectiveness of management in addressing key risks. The trust is putting a Governance Plan in place which is intended to address concerns regarding the trust's risk management.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Kettering General Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in October 2012 for financial and governance concerns including failure to meet a healthcare target. The trust was issued with its provider licence in April 2013 and Monitor imposed discretionary requirements on the trust in relation to failure to meet a healthcare target, governance concerns, and financial planning issues. Monitor imposed an additional licence condition relating to board and management capacity and capability. At the year end the trust remained subject to this enforcement action. In April 2014 Monitor accepted enforcement undertakings from the trust relating to governance concerns including healthcare target breaches and amended the additional licence condition relating to board and management capacity and capability.

In its annual governance statement the trust has disclosed improved performance against the breached healthcare target, a recovery plan for finances and a capital plan to address safety issues.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over the trust's financial performance.

- Medway NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in April 2011 relating to financial planning and associated governance concerns. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to failure to meet a healthcare target and financial planning concerns. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment provided and the trust was placed in special measures. In November 2013 Monitor imposed an additional licence condition on the trust to ensure it has in place sufficient Board, management and clinical leadership capacity and capability, as well as appropriate

governance systems and processes, to ensure it is able to resolve healthcare target and care quality issues. Monitor imposed discretionary requirements on the trust in February 2014 relating to quality governance concerns, a further CQC inspection, management capacity and the trust's financial position and took action to require the trust to appoint a new Chair and Chief Executive. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has provided details of improvements in risk management during the year and that an action plan has been developed following an external review of quality governance. It also set out five priorities agreed by the Board at the start of 2014/15 which are intended to address the financial position and redress issues involving agency staff.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Mid Staffordshire NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in March 2009 following a report by the then Healthcare Commission highlighting serious failings in the quality of care provided. An independent inquiry chaired by Robert Francis QC into the care provided by the trust was published in February 2010. Following this and other reviews, the trust invested heavily in improving quality of care. As a result the trust's financial position considerably worsened and Monitor appointed a Contingency Planning Team (CPT) to assess the sustainability of the trust 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 develop recommendations for the trust which would safeguard the provision of health services which should continue to be provided locally. The TSAs published their draft report in July 2013, after which followed a public consultation. The TSAs' final report was presented to Monitor in December 2013. As part of a detailed set of proposals the report recommended the dissolution of the trust, with its hospitals and services transferred to other local providers. In January 2014 Monitor recommended to the Secretary of State that he should accept the TSAs' proposals and he did so in February 2014. Since February the TSAs have been working to implement the recommendations.

In its annual governance statement the trust has disclosed how the trust is

being managed during the trust special administration process and in the actions taken in respect of care and quality governance during the year.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the ongoing trust special administration process.

- Milton Keynes Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in March 2010 following CQC concerns over the trust's maternity services. Concerns about the trust's financial position also arose later in 2010. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to failure to meet a healthcare target, financial planning issues and associated governance concerns. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has provided details of its changes in risk management at the end of the year following an external review and of action plans put in place following CQC inspections. It also sets out that the trust has made significant improvements in financial governance which have led to benefits in performance.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over the trust's financial performance.

- 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 over the trust's financial sustainability and associated governance issues. In February 2013 Monitor appointed a Contingency Planning Team (CPT).

The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to failure to meet a healthcare target and financial planning issues. 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. In September 2013 the CPT made recommendations to form a recovery plan for the trust including: a comprehensive programme of cost efficiencies; inviting bids from other providers to make better use of under-utilised estate, developing services to generate extra income; facilitating

joined-up working across the local health economy; and seeking government financial support to fund the residual deficit. Monitor and the trust board adopted these proposals. Monitor accepted additional enforcement undertakings from the trust in September 2013 relating to the implementation of these proposals.

In its annual governance statement the trust has disclosed the action taken during 2013/14 including changes in finance roles, strengthening of planning and strategy, work to implement internal audit recommendations and a development programme for the board of directors. The trust comments that it is committed to delivering the CPT's recommendations and Monitor's enforcement notices and undertakings, aimed at securing a viable and sustainable future for the trust's services.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the financial challenges faced by the trust which indicate, in the view of the auditor, the existence of a material uncertainty which may cast doubt over the trust's ability to meet its financial performance targets.

- 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 financial sustainability and governance arrangements. The trust was issued with its provider licence in April 2013 and Monitor imposed discretionary requirements on the trust relating to financial planning and governance concerns. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment provided and the trust was placed in special measures. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has disclosed significant internal control issues relating to finances, board and quality governance, information governance, never events, and serious incidents. The trust has identified improvements that need to be made in 2014/15 in these areas.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over the trust's financial performance.

- Tameside Hospital NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in March 2011 relating to

financial planning and associated governance concerns. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to financial planning. At the same time Monitor imposed discretionary requirements on the trust relating to governance concerns. In August 2013 Monitor accepted additional enforcement undertakings from the trust following a review by Professor Sir Bruce Keogh of the quality of care and treatment provided and the trust was placed in special measures. At the same time Monitor imposed an additional licence condition on the trust for it to ensure it has an effective board, board committees and management to enable it to resolve the governance issues. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has disclosed details of an independent review of board and quality governance processes undertaken following the Keogh review and subsequent changes in risk management, together with actions taken in response to CQC recommendations.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Queen Elizabeth Hospital 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. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to its financial position and associated governance concerns. In August 2013 Monitor accepted additional enforcement undertakings from the trust relating to financial planning, failure to meet a healthcare target and quality issues following a CQC inspection. In October 2013 Monitor accepted further undertakings and imposed discretionary requirements on the trust in relation to these and further quality issues and the trust was placed in special measures. At the year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In its annual governance statement the trust has disclosed significant control issues regarding its ability to work effectively, efficiently and economically, the quality of care provided and operational target performance. The trust has taken action to address issues in these areas.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and

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

- The Rotherham NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in February 2013 due to financial planning issues and governance concerns including concerns relating to the implementation of its electronic patient records system. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust in relation to these issues. At the same time Monitor imposed an additional licence condition for the trust to ensure it has in place an effectively functioning board, board committees and personnel to enable it to address these governance issues. Monitor accepted additional enforcement undertakings from the trust in June and September 2013 relating to the trust implementing its governance plan and strategic plan respectively. At the year end the trust remained subject to this enforcement action.

In its annual governance statement the trust has disclosed an improvement in its governance arrangements and the development of a Board Assurance Framework. The trust intends to create a recovery plan in relation to electronic patient records as a result of two patient record breaches in the year that were reported to the Information Commissioner.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- University Hospitals of Morecambe Bay NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in November 2011 following CQC concerns over the trust's maternity services. In February 2012 Monitor used its powers to change the leadership at the trust following further governance concerns. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust relating to failure to meet a healthcare target, financial planning issues and associated governance concerns. Monitor imposed discretionary requirements on the trust at the same time relating to governance concerns relating to financial management and maternity services. At the year end the trust remained subject to this enforcement action. In June 2014 Monitor accepted additional enforcement undertakings from the trust relating to governance and quality issues following concerns expressed by the CQC. At the same time the trust was placed in special measures for failings in patient care and governance.

In its annual governance statement the trust has disclosed that a governance division has been created, led by the Director of Governance, in order to improve governance at the trust. It also provides details of changes at board level and improvements in quality governance.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over the trust's financial performance.

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

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

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

This section also includes details of enforcement action taken by Monitor at foundation trusts after the year end up to the date of the approval of these consolidated accounts.

- Ashford and St Peter's Hospitals NHS Foundation Trust: The trust has disclosed two significant internal control issues, being the failure to meet the four hour A&E waiting time target in quarter 4 of 2013/14 and the admitted Referral to Treatment Time target in quarters 3 and 4 of 2013/14.
- Barnsley Hospital NHS Foundation Trust: The trust has disclosed that in March 2014 the Board raised concerns to Monitor regarding significant financial issues. In June 2014 Monitor accepted enforcement undertakings from the trust due to the financial deficit in 2013/14 which the trust and the Board only became aware of in March 2014 following receipt of whistleblowing allegations regarding concerns of financial irregularities. The enforcement undertakings set out that these matters demonstrate a failure of the trust's corporate governance arrangements and financial management. The enforcement undertakings also require remedial action following breaches in a healthcare target. Monitor issued an additional licence condition at the same time relating to governance and board effectiveness.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Black Country Partnership NHS Foundation Trust: The trust has disclosed significant control issues relating to strategic planning and weaknesses in its quality governance arrangements.
- Central and North West London NHS Foundation Trust: The trust has disclosed two significant control issues identified through CQC inspections at three of its sites during 2013/14, two of which resulted in the receipt of warning notices. Monitor is currently investigating governance concerns at the trust triggered by these warning notices.
- Central Manchester University Hospitals NHS Foundation Trust: Among a number of significant risks being managed at the trust during the year, the trust disclosed significant internal control issues relating to performance against clinical targets and the occurrence of 'never events'.
- County Durham and Darlington NHS Foundation Trust: the trust considers that 8 internal audit findings referred to in the head of internal audit opinion constitute significant control issues. These relate to weaknesses in Care Group governance, medical staff job plans, engagement with commissioners, performance monitoring data, learning from incidents and complaints, processes for sourcing bank and agency staff, quality control for performance appraisals, and implementing recommendations on emergency preparedness and business continuity. The trust also considers that recommendations made to the trust following a review by the NHS Emergency Care Intensive Support Team constitute a significant internal control issue.
- Hampshire Hospitals NHS Foundation Trust: The trust has disclosed a significant control issue in relation to a failure to meet two healthcare targets in the first quarter of the year.
- Lancashire Care NHS Foundation Trust: The trust has disclosed one significant internal control weakness relating to data quality affecting the reporting of two performance targets to the board. The trust discloses that action was taken to address the issues including commissioning an independent external review of the remedial action required.
- North East Ambulance Service NHS Foundation Trust: The trust disclosed two significant internal control issues identified during the year. It says that one relating to staff employment checks was resolved in year whilst work to address the second on the use of out of date drugs is ongoing.
- The Newcastle upon Tyne Hospitals NHS Foundation Trust: The trust disclosed significant internal control issues relating to access controls over two of the Trust's systems, spending approvals for capital schemes and non-compliance with national guidance on fire safety training.

- Royal Berkshire NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, the trust has disclosed irregular expenditure in the form of two severance agreements made in year for which the relevant HM Treasury approval was not sought. Relating to this issue, the external auditor has qualified the audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The Royal Bournemouth & Christchurch Hospitals NHS Foundation Trust: the trust considers that 12 internal audit findings classified as high risk during the year constitute significant control issues. These include issues relating to the triage of patients, information governance controls, the policy for using locum doctors, access to IT, the trust's e-rostering system, IT disaster recovery, and the timely completion of some documentation in the emergency department.
- South Central Ambulance Service NHS Foundation Trust: The trust disclosed one significant control weakness highlighted by a major data security breach in April 2014. This involved publication of staff personal data on the trust's website. A trust investigation into the incident is ongoing.
- South Devon Healthcare NHS Foundation Trust: The trust has disclosed one significant control weakness in its annual governance statement relating to the conclusions of an employment tribunal in upholding a claim from two members of staff that they suffered detriment following whistleblowing. This led to the suspension of the chief executive and a director and the resignations of the chair and vice-chair. The trust discloses that it has updated its whistleblowing policy and processes and the board intends to conduct a full governance review in 2014/15.
- Southern Health NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it has disclosed some control weaknesses in some divisional quality governance arrangements as highlighted by the receipt of 10 CQC warning notices during 2013/14. In April 2014 Monitor accepted enforcement undertakings from the trust in relation to quality governance and CQC warning notices. The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor in April 2014.
- South Tees Hospitals NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it has disclosed a risk relating to its financial performance. The trust has also disclosed that in October 2013 Monitor opened a formal investigation into the Trust's compliance with its licence due to governance concerns arising

primarily out of the trust's performance against healthcare targets and concerns about 'never events'. In January 2014 Monitor broadened the investigation to include financial planning concerns. The external auditor has qualified the trust's audit certificate for the year ended 31 March 2014 as the auditor is not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to concerns over the trust's financial performance, the occurrence of 'never events' and performance against healthcare targets. In July 2014 Monitor accepted enforcement undertakings from the trust relating to financial planning and governance concerns, including failure to achieve healthcare targets. At the same time Monitor imposed an additional licence condition on the trust for it to ensure it has an effective board, management and clinical leadership to enable it to resolve the governance issues.

- University Hospital of South Manchester NHS Foundation Trust: The trust disclosed two significant internal control weaknesses during the year. These relate to failure to meet financial targets and not meeting a healthcare target. In May 2014, Monitor accepted enforcement undertakings from the trust to address concerns over financial sustainability and board governance.
- West Suffolk NHS Foundation Trust: The trust has disclosed a significant control issue in relation to its financial position and its failure to achieve its planned surplus in 2013/14 and a forecast deficit in 2014/15. The trust commissioned an external review to look at its finances and the opportunities available. Monitor opened an investigation into these issues in May 2014.

Financial standing

13 NHS foundation trusts received unqualified audit opinions but the auditor has included an 'emphasis of matter' paragraph within the audit opinion relating to going concern or financial performance. In some cases the underlying issues will be referred to in the details of Monitor's enforcement action detailed above. The trusts who have an 'emphasis of matter' for going concern or financial performance within their audit opinion are:

- Barnsley Hospital NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust
- Kettering General Hospital 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
- South Tees Hospitals NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust

- The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust; and
- University Hospitals of Morecambe Bay NHS Foundation Trust

10 NHS foundation trusts have required financial support from the Department of Health in 2013/14 to support the continued provision of patient care which they have received in the form of Public Dividend Capital (PDC). In some cases the underlying issues will be referred to in the details of Monitor's enforcement action detailed above. The trusts who have received this funding in 2013/14 are:

- Bolton NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust
- Milton Keynes General 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
- The Queen Elizabeth Hospital, Kings Lynn NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust

In addition King's College Hospital NHS Foundation Trust was provided with PDC following its acquisition of parts of the demised South London Healthcare NHS Trust.

Quality reports

In 2013/14 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 2013/14 and is consistent with the other information sources detailed in the guidance.

All NHS foundation trusts received their limited assurance report in respect of the content and consistency of their quality reports. 7 NHS foundation trusts did not receive a 'clean' limited assurance report in respect of the mandated indicators or had an emphasis of matter included in their assurance report:

- Birmingham and Solihull Mental Health NHS Foundation Trust: the limited assurance report has been qualified in relation to the Care Programme Approach (CPA) 7-day follow up indicator and the crisis home resolution treatment indicator.
- Cambridgeshire and Peterborough NHS Foundation Trust: the limited assurance report has been qualified in relation to the CPA 7-day follow up indicator and the crisis home resolution treatment indicator.

- Hampshire Hospitals NHS Foundation Trust: the limited assurance report was unqualified but included an emphasis of matter due to the trust using a local interpretation of the national definition for the 62 day cancer wait indicator.
- King's College Hospital NHS Foundation Trust: the limited assurance report has been qualified as the data used to prepare the report has not consolidated data relating to the Princess Royal University Hospital site over which the trust took responsibility in October 2013.
- Leeds and York Partnership NHS Foundation Trust: the limited assurance report contains an adverse conclusion in relation to the delayed transfers of care indicator.
- South Staffordshire and Shropshire Healthcare NHS Foundation Trust: the limited assurance report was unqualified but included an emphasis of matter due to the trust using a local interpretation of the national definition for the CPA 7-day follow up indicator.

Information governance

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

- losses and thefts of laptop computers;
- losses of computer memory sticks;
- losses of paper medical records;
- accidental destruction of paper document; and
- the accidental disclosure of information.

Some of these issues related to patient data.

Of these 45 foundation trusts, 30 reported serious incidents in relation to information governance during the year.

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.

Dr David Bennett
Chief Executive
2 July 2014

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

I certify that I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2014 under the Health and Social Care Act 2012. The financial statements comprise the Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of Monitor and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the affairs of the NHS foundation trust sector as at 31 March 2014 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health and Social Act 2012 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Review of NHS foundation trust financial performance for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

10 July 2014

Consolidated Statement of Comprehensive Income

	Note	2013/14			2012/13 restated		
		Before impairments and gains from transfers by absorption	Impairments and gains from transfers by absorption	After impairments and gains from transfers by absorption	Before impairments and gains from transfers by absorption	Impairments and gains from transfers by absorption	After impairments and gains from transfers by absorption
		£m	£m	£m	£m	£m	£m
Operating income	3,4,14,19	41,207	237	41,444	38,880	89	38,969
Operating expenses	6.1,14,19	(40,256)	(606)	(40,862)	(37,592)	(704)	(38,296)
Operating surplus / (deficit)		951	(369)	582	1,288	(615)	673
Finance costs							
Finance income	12	23	-	23	40	-	40
Finance expense - financial liabilities	13	(402)	-	(402)	(379)	-	(379)
Finance expense - unwinding of discount on provisions	27.2	(5)	-	(5)	(6)	-	(6)
PDC dividends payable		(461)	-	(461)	(457)	-	(457)
Net finance costs		(845)	-	(845)	(802)	-	(802)
Share of profit of associates/joint ventures		3	-	3	3	-	3
Gains arising from transfer by absorption	39	-	89	89	-	191	191
Movement in fair value of investment property and other investments	17.1	26	-	26	11	-	11
Corporation tax expense		(1)	-	(1)	-	-	-
Surplus / (deficit) for the year		134	(280)	(146)	500	(424)	76
Other comprehensive income / (expenditure)							
<i>Will not be reclassified to income and expenditure:</i>							
Gains/(loss) from transfer by absorption from demising bodies	39	-	705	705	-	-	-
Net impairments charged to reserves	19	-	(215)	(215)	-	(331)	(331)
Revaluations		647	-	647	216	-	216
Other recognised gains and losses		(2)	-	(2)	1	-	1
Remeasurements of net defined benefit pension liability / asset	37.1	1	-	1	(2)	-	(2)
Other reserve movements		(9)	-	(9)	(1)	-	(1)
<i>May be reclassified to income and expenditure when specific conditions are met:</i>							
Fair value gains/(losses) on available-for-sale financial investments		2	-	2	6	-	6
Total other comprehensive income / (expense)		639	490	1,129	220	(331)	(111)
Total comprehensive income / (expense) for the period		773	210	983	720	(755)	(35)

Discontinued operations are not material to the accounts so are not shown separately on the face of the Statement of Comprehensive Income. Please refer to note 14 for further details.

The notes on pages 49 to 105 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2014

		31 March 2014	31 March 2013 restated	1 April 2012 restated
	Note	£m	£m	£m
Non-current assets				
Intangible assets	15	316	239	223
Property, plant and equipment	16	23,654	21,555	21,298
Investment property	17	121	90	84
Investments in associates and jointly controlled operations	17	17	15	7
Other investments	17	181	178	166
Trade and other receivables	21	238	201	221
Other financial assets	22	4	1	4
Other assets		4	4	4
Total non-current assets		24,535	22,283	22,007
Current assets				
Inventories	20	490	460	438
Trade and other receivables	21	2,324	1,597	1,453
Other financial assets	22	20	41	55
Non-current assets held for sale and assets in disposal groups	23	112	114	116
Cash and cash equivalents	24	4,314	4,581	4,041
Total current assets		7,260	6,793	6,103
Current liabilities				
Trade and other payables	25	(4,233)	(3,841)	(3,459)
Borrowings	26	(315)	(218)	(214)
Other financial liabilities		(1)	(1)	(1)
Provisions for liabilities and charges	27	(367)	(342)	(284)
Other liabilities	28	(487)	(481)	(540)
Total current liabilities		(5,403)	(4,883)	(4,498)
Total assets less current liabilities		26,392	24,193	23,612
Non-current liabilities				
Trade and other payables	25	(21)	(28)	(31)
Borrowings	26	(5,935)	(5,430)	(5,353)
Other financial liabilities		(3)	(4)	(5)
Provisions for liabilities and charges	27	(293)	(262)	(261)
Other liabilities	28	(191)	(209)	(177)
Total non-current liabilities		(6,443)	(5,933)	(5,827)
Total assets employed		19,949	18,260	17,785
Financed by				
Public dividend capital		13,499	12,727	12,323
Revaluation reserve		4,738	4,179	4,256
Other reserves		80	87	83
Merger reserve		2	2	2
Income and expenditure reserve		1,291	944	821
NHS charitable fund reserves		339	321	300
Total taxpayers' equity		19,949	18,260	17,785

The notes on pages 49 to 105 form part of these accounts.

Dr David Bennett
Chief Executive
2 July 2014

Consolidated Statement of Changes in Equity

Year ended 31 March 2014

	NHS charitable funds reserves	Public dividend capital	Revaluation reserve	Other reserves	Merger reserve	Income and expenditure reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Taxpayers' equity at 1 April 2013 - as previously stated	321	12,728	4,172	87	2	963	18,273
Prior period adjustments	-	(1)	7	-	-	(19)	(13)
Taxpayers' equity at 1 April 2013 - restated	321	12,727	4,179	87	2	944	18,260
At start of period for new FTs	3	296	45	-	-	(25)	319
Surplus/(deficit) for the year	43	-	-	-	-	(189)	(146)
Transfers by modified absorption: gains/ (losses) on 1 April transfers from demising bodies	-	-	-	-	-	705	705
Transfers by absorption: transfers between reserves	2	89	187	-	-	(278)	-
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits	-	-	(10)	-	-	10	-
Transfers between reserves	(33)	-	(50)	(2)	-	85	-
Impairments	-	-	(215)	-	-	-	(215)
Revaluations	1	-	646	-	-	-	647
Asset disposals	-	-	(36)	-	-	36	-
Fair value gains/(losses) on Available-for-sale financial investments	2	-	-	-	-	-	2
Other recognised gains and losses	-	-	(2)	-	-	-	(2)
Remeasurements of defined benefit pension scheme liability / asset	-	-	-	-	-	1	1
Public dividend capital received	-	384	-	-	-	-	384
Public dividend capital repaid	-	(2)	-	-	-	-	(2)
Public dividend capital adjustment for cash impact of payables / receivables transferred from legacy teams	-	5	-	-	-	-	5
Other reserve movements	-	-	(6)	(5)	-	2	(9)
Taxpayers' equity at 31 March 2014	339	13,499	4,738	80	2	1,291	19,949

Consolidated Statement of Changes in Equity

Year ended 31 March 2013 – restated

	NHS charitable funds reserves	Public dividend capital	Revaluation reserve	Other reserves	Merger reserve	Income and expenditure reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Taxpayers' equity at 1 April 2012 - as previously stated	-	12,324	4,249	84	1	839	17,497
Prior period adjustments	300	(1)	7	(1)	1	(18)	288
Taxpayers' equity at 1 April 2012 - restated	300	12,323	4,256	83	2	821	17,785
At start of period for new FTs	-	219	76	4	-	38	337
Surplus/(deficit) for the year	42	-	-	-	-	34	76
Transfers between reserves	(27)	-	(3)	-	-	30	-
Impairments	-	-	(331)	-	-	-	(331)
Revaluations	-	-	216	-	-	-	216
Fair value gains/(losses) on Available-for-sale financial investments	6	-	-	-	-	-	6
Asset disposals	-	-	(20)	-	-	20	-
Remeasurements of defined benefit pension scheme liability / asset	-	-	-	-	-	(2)	(2)
Other recognised gains and losses	-	-	(12)	-	-	13	1
Public dividend capital received	-	187	-	-	-	-	187
Public dividend capital repaid	-	(1)	-	-	-	-	(1)
Other reserve movements	-	-	(10)	-	-	9	(1)
Taxpayers' equity at 31 March 2013	321	12,728	4,172	87	2	963	18,273

Information on reserves

NHS charitable funds reserves

This balance represents the ring-fenced funds held by the NHS charitable funds consolidated within these accounts. These reserves are classified as restricted or unrestricted and a breakdown is provided in note 33.

Public Dividend Capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. Additional PDC may also be issued to NHS foundation trusts by the Department of Health. A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as the 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. Other reserves also include non-controlling interests. Non-controlling interests represent the equity in a subsidiary of an NHS foundation trust which is not attributable, directly or indirectly, to the NHS foundation trust.

Merger reserve

This reserve reflects balances formed on merger of NHS bodies.

Income and expenditure reserve

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

Consolidated Statement of Cash Flows	2013/14	2012/13 restated
	£m	£m
Cash flows from operating activities		
Operating surplus/(deficit)	582	673
Non-cash income and expense		
Depreciation and amortisation	1,202	1,123
Impairments	606	704
Reversals of impairments	(237)	(89)
(Gain)/loss on disposal	(11)	14
Non-cash donations/grants credited to income	(22)	(15)
(Increase)/decrease in trade and other receivables and other assets	(698)	(66)
(Increase)/decrease in inventories	(20)	(14)
Increase/(decrease) in trade and other payables	256	259
Increase/(decrease) in other liabilities	(16)	(24)
Increase/(decrease) in provisions	26	42
NHS charitable funds – net adjustments to operating cash flows	4	(2)
Other movements in operating cash flows	(2)	7
Net cash generated from/(used in) operations	1,670	2,612
Cash flows from investing activities		
Interest received	17	32
Purchase of financial assets	(691)	(1,005)
Sales of financial assets	707	1,014
Purchase of intangible assets	(117)	(82)
Sales of intangible assets	1	-
Purchase of property, plant and equipment	(1,944)	(1,564)
Sales of property, plant and equipment	129	77
Private finance initiative lifecycle prepayments	(14)	(11)
Cash from acquisitions and disposals of business units and subsidiaries	2	(9)
NHS charitable funds – net cash flows from investing activities	11	12
Net cash generated from/(used in) investing activities	(1,899)	(1,536)
Cash flows from financing activities		
Public dividend capital received	389	187
Public dividend capital repaid	(2)	(1)
Loans received from the Department of Health and Independent Trust Financing Facility (ITFF)	521	260
Other loans received	123	3
Loans repaid to the Department of Health and ITFF	(109)	(86)
Other loans repaid	(4)	(3)
Capital element of finance lease rental payments	(34)	(34)
Capital element of private finance initiative obligations	(93)	(96)
Interest paid	(45)	(37)
Interest element of finance lease and private finance initiative obligations	(346)	(330)
PDC dividend paid	(455)	(460)
Cash flows from/(used in) other financing activities	(9)	(4)
Net cash generated from/(used in) financing activities	(64)	(601)
Increase/(decrease) in cash and cash equivalents	(293)	475
Cash and cash equivalents at 1 April	4,577	4,028
Cash and cash equivalents at start of period for new FTs	25	75
Cash and cash equivalents changes due to transfers by absorption	-	(1)
Cash and cash equivalents at 31 March	4,309	4,577

Total cash and cash equivalents is reconciled to the Statement of Financial Position in note 24.

Notes to the accounts

Note 1 Accounting policies and other information

Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 requires Monitor to prepare a consolidated set of accounts for NHS foundation trusts. Monitor has produced the consolidated accounts of NHS foundation trusts in accordance with directions issued by the Secretary of State.

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

Where NHS foundation trusts have discretion over their accounting policies 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 consolidate 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. As there is no parent entity within this consolidation, only consolidated group statements are presented.

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

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

Machinery of government changes in 2012/13 and 2013/14

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 balances transferred to NHS bodies on 1 April 2013 from NHS bodies who ceased to exist on that date (i.e. Primary Care Trusts (PCT) and Strategic Health Authorities (SHA)), HM Treasury approved a divergence from the existing absorption accounting principles. For these transactions, modified absorption accounting applies and the net gain/loss corresponding to the net assets/liabilities transferred from the relevant PCT/SHA is recognised within the income and expenditure reserve.

In both normal and modified absorption transfers for property, plant and equipment assets and intangible assets, the cost and accumulated depreciation and amortisation balances from the transferring entity's accounts are preserved on recognition in the NHS foundation trust accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the

NHS foundation trust makes a transfer from its income and expenditure reserve to its revaluation reserve. Where the Department of Health transfers Public Dividend Capital from the divesting body to the receiving foundation trust as part of an absorption transaction, this is treated as a transfer from the income and expenditure reserve to the PDC reserve by the foundation trust. This ensures that the absorption gain/loss is calculated in line with the requirements of the FReM and also that the balance of PDC is preserved where this is transferred by the Department of Health. In 2013/14 this has only applied to normal absorption accounting transfers and no PDC transferred as part of the modified absorption transfers.

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

More details of transfers in 2012/13 and 2013/14 are provided in note 39.

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 or 2013/14.

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.

NHS Charitable Funds

NHS foundation trusts are the corporate trustees to various NHS charitable funds. The foundation trusts have individually assessed their relationships to the respective charitable funds and determined whether they meet the definition of subsidiaries under International Accounting Standard (IAS) 27. From 1 April 2013 where the foundation trust has the power to govern the financial and operating policies of the charitable fund so as to obtain benefits from its activities for itself, its patients or its staff, the charitable fund is accounted for as a subsidiary of the NHS foundation trust.

Prior to 1 April 2013, HM Treasury had approved a dispensation from NHS bodies applying the principles of IAS 27 to their charitable funds. From 2013/14, foundation trusts have consolidated their charitable funds where appropriate and have applied this as a change in accounting policy, and balances from 1 April 2012 are restated in these consolidated accounts. 53 foundation trusts consolidated their NHS charities in 2013/14 and the results are included in these accounts. More details on the restatement are provided in note 38.

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

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

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 non-controlling interests are included as a separate item in the Statement of Financial Position.

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

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

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 patient care and other 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 NHS 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 Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

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

a) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2014, is based on valuation data as 31 March 2013, updated to 31 March 2014 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates.

The last published actuarial valuation undertaken for the NHS Pension Scheme, as at time that local NHS foundation trusts finalised their 2013/14 annual accounts, was completed for the year ending 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes were suspended by HM Treasury on value for money grounds while consideration was given to recent changes to public service pensions, and while future scheme terms were developed as part of the reforms to public service pension provision.

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

Subsequent to the finalisation of local NHS foundation trust accounts, a full actuarial valuation of the scheme undertaken as at 31 March 2012 was published by the Government Actuary's Department. The valuation report specifies the rate of employer contribution payable and the employer cost cap for the four year period commencing 1 April 2015. From 1 April 2015:

- the employer contribution rate payable for the following four year period will be 14.3% (currently 14.0%); and
- a proposed employer cost cap will be 11.6% of pensionable pay.

The next formal valuation to be used for funding purposes is expected to be carried out as at 31 March 2016 and will be used to inform contribution rates from 1 April 2019.

c) Scheme provisions

The NHS Pension Scheme provided defines benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained:

The Scheme is a “final salary” scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as “pension commutation”. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices (Consumer Price Index) in the twelve months ending 30 September in the previous calendar year.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year’s pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the employer. Members can purchase additional service in the NHS Scheme and contribute to money purchase AVC’s run by the Scheme’s approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

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 net interest cost during the year arising from the unwinding of the discount on the net scheme liabilities is recognised within finance costs.

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

Where 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’) and employer contributions are charged to expenditure as they fall due.

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

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

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

Trust	Pension Fund	Administering body
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
Norfolk and Suffolk NHS Foundation Trust	Norfolk Pension Fund	Norfolk 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 re-valued at regular intervals, and at least once every 5 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	NHS charitable fund property
	£m	£m	£m	£m
Modern Equivalent Asset (no alternative site)	2,378	12,162	164	5
Modern Equivalent Asset (alternative site)	605	3,723	32	-
Other Professional Valuations	359	1,038	28	2
Total	3,342	16,923	224	7

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 FReM 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.

Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

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

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

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:

	Min Life Years	Max Life Years
Land	1	Infinite
Buildings, excluding dwellings	1	188
Dwellings	1	105
Assets under construction	1	99
Plant & machinery	1	68
Transport equipment	1	15
Information technology	1	18
Furniture & fittings	1	37

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

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
Intangible assets - internally generated		
Information technology	1	15
Development expenditure	1	10
Other	2	15
Intangible assets - purchased		
Software	1	20
Licences & trademarks	1	15
Patents	2	10
Other	1	15
Goodwill	2	10

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

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 commissioners or NHS trusts for the provision of services. Grants from the Department of Health are accounted for as government grants, as are grants from the Big Lottery Fund. Where a grant is used to fund revenue expenditure it is credited to operating income to match that expenditure. Where the grant is used to

fund capital expenditure, it is credited to the Statement of Comprehensive Income once conditions attached to the grant have been met.

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 2013/14.

		Real rate
Short-term	Up to 5 years	-1.90%
Medium-term	After 5 years up to 10 years	-0.65%
Long-term	Exceeding 10 years	2.20%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 1.80% 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 27.3.

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 36 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 36, 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. Additional PDC may also be issued to NHS foundation trusts by the Department of Health. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32. A charge, reflecting the cost of capital utilised by 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 (including lottery funded assets), (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, (iii) for 2013/14 only, net assets and liabilities transferred from bodies which ceased to exist on 1 April 2013, and (iv) 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 end of the reporting period, and any adjustments to tax payable in respect of previous years.

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

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

1.19 Foreign exchange

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

Where 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 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

Some NHS foundation trusts participate in the CRC scheme. The CRC scheme is a mandatory cap and trade scheme for non-transport CO₂ emissions. Where NHS foundation trusts are registered with the CRC scheme, they are required to surrender to the Government an allowance for every tonne of CO₂ they emit during the financial year. Therefore, registered NHS foundation trusts should recognise a liability and related expense in respect of this obligation as CO₂ emissions are made.

The carrying amount of the liability at 31 March will, therefore, reflect the CO₂ emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation, being initially £12 per allowance/tonne.

1.21 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since 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 43 to the accounts).

1.22 Losses and special payments

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

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

1.23 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 13 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 NHS foundation trusts are:

- Barnsley Hospital NHS Foundation Trust
- Derby Hospitals NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust
- Kettering General Hospital 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
- South Tees Hospitals NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust
- The Queen Elizabeth Hospital, King's Lynn NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust

All of these accounts have been prepared on a going concern basis and have received unqualified audit opinions.

1.24 Critical accounting estimates and judgements

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

- on elimination of intra-group transactions and balances, where differences occur between amounts recognised by respective NHS foundation trusts, adjustments are made on the value of the income and receivables recorded. Any difference between these amounts and the amounts recognised as expenditure and payables are not adjusted within and these amounts are not material; and
- these consolidated accounts are prepared on a going concern basis as detailed within the section above.

Critical accounting estimates and judgements made in the preparation of individual NHS foundation trust accounts are disclosed locally by each NHS foundation trust.

1.25 Early adoption of standards, amendments and interpretations

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

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

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

The following standards have not been adopted in these accounts:

- IFRS 10 Consolidated Financial Statements: will be effective from 2014/15 under EU adoption and HM Treasury FReM.
- IFRS 11 Joint Arrangements: will be effective from 2014/15 under EU adoption and HM Treasury FReM.

- IFRS 12 Disclosure of Interests in Other Entities: will be effective from 2014/15 under EU adoption and HM Treasury FReM.
- IAS 27 Separate Financial Statements (Revised): will be effective from 2014/15 under EU adoption and HM Treasury FReM.
- IAS 28 Associates and joint ventures (Revised): will be effective from 2014/15 under EU adoption and HM Treasury FReM.
- IAS 32 Financial Instruments: Presentation - amendment for offsetting financial assets and liabilities: will be effective from 2014/15 under EU adoption and HM Treasury FReM.
- IFRS 13 Fair Value Measurement: Effective date of 2013/14 under EU adoption, however this will not be adopted by the HM Treasury FReM until 2015/16.
- IAS 36 Impairment of Assets (amendment) – recoverable amounts disclosure: Effective date 2014/15 under EU adoption, however this will not be adopted by the HM Treasury FReM until 2015/16 as it is aligned to IFRS 13 adoption.
- IFRIC 21 Levies: Effective date of 2014/15 but not yet EU adopted.
- 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.
- Annual Improvements 2012: Effective date of 2015/16 but not yet EU adopted.
- Annual Improvements 2013: Effective date of 2015/16 but not yet EU adopted.
- IAS 19 (amendment) – employer contributions to defined benefit pension schemes: Effective date 2015/16 but not yet EU adopted.

The adoption of IFRS 13 Fair Value Measurement may have a future material impact on the measurement of property, plant and equipment in the consolidated NHS foundation trust accounts but the effect of this cannot currently be estimated. The remaining new or amended standards and interpretations are not anticipated to have a future material impact.

Note 2 Operating segments

The NHS foundation trust sector is formed of four types of NHS foundation trust, providing different services: acute, ambulance, mental health and specialist.

Alternatively NHS foundation trusts can be allocated into four regions: North, Midlands & East, South and London.

These are two alternative segmental analyses. 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. Monitor is not the parent of NHS foundation trusts and as such does not have a function that meets the definition of the chief operating decision maker in IFRS 8.

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

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

Analysis by type of trust

2013/14	Acute	Ambulance	Mental Health	Specialist	Total
	£m	£m	£m	£m	£m
Income (less impairment reversals)	29,755	904	8,284	2,954	41,897
Expenditure before depreciation and impairment	(28,325)	(845)	(7,861)	(2,693)	(39,724)
Depreciation and amortisation	(879)	(42)	(164)	(117)	(1,202)
Impairments (net of reversals)	(160)	(4)	(202)	(3)	(369)
Net finance costs	(661)	(8)	(145)	(38)	(852)
Gains/(losses) from transfers by absorption	65	-	24	-	89
Other	(1)	-	-	7	6
Surplus / (deficit) for the year	(206)	5	(64)	110	(155)
<i>Number of trusts</i>	<i>83</i>	<i>5</i>	<i>41</i>	<i>18</i>	<i>147</i>

2012/13 restated	Acute	Ambulance	Mental Health	Specialist	Total
	£m	£m	£m	£m	£m
Income (less impairment reversals)	27,934	629	8,106	2,806	39,475
Expenditure before depreciation and impairment	(26,263)	(581)	(7,660)	(2,559)	(37,063)
Depreciation and amortisation	(846)	(32)	(141)	(104)	(1,123)
Impairments (net of reversals)	(399)	(8)	(134)	(75)	(616)
Net finance costs	(629)	(7)	(136)	(37)	(809)
Gains /(losses) from transfers by absorption	140	35	16	-	191
Other	5	-	(1)	2	6
Surplus / (deficit) for the year	(58)	36	50	33	61
<i>Number of trusts</i>	<i>81</i>	<i>5</i>	<i>41</i>	<i>18</i>	<i>145</i>

Monitor's internal reporting also divides the **acute sector** as follows:

	Large Teaching	Large Other	Medium	Small	Total
	£m	£m	£m	£m	£m
2013/14					
Surplus / (deficit) for the year	111	(19)	(186)	(111)	(205)
<i>Number of trusts</i>	<i>19</i>	<i>6</i>	<i>38</i>	<i>20</i>	<i>83</i>
2012/13					
Surplus / (deficit) for the year	49	(18)	(35)	(54)	(58)
<i>Number of trusts</i>	<i>19</i>	<i>6</i>	<i>36</i>	<i>20</i>	<i>81</i>

Analysis by region

2013/14	North	Midlands & East	South	London	Total
	£m	£m	£m	£m	£m
Income (less impairment reversals)	15,866	9,277	9,061	7,693	41,897
Expenditure before depreciation and impairment	(15,066)	(8,909)	(8,561)	(7,188)	(39,724)
Depreciation and amortisation	(410)	(264)	(298)	(230)	(1,202)
Impairments (net of reversals)	(221)	(11)	(95)	(42)	(369)
Net finance costs	(296)	(220)	(164)	(172)	(852)
Gains/(losses) from transfers by absorption	-	-	-	89	89
Other	-	1	-	5	6
Surplus / (deficit) for the year	(127)	(126)	(57)	155	(155)
<i>Number of trusts</i>	<i>55</i>	<i>38</i>	<i>35</i>	<i>19</i>	<i>147</i>

2012/13 restated	North	Midlands & East	South	London	Total
	£m	£m	£m	£m	£m
Income (less impairment reversals)	15,381	8,804	8,368	6,922	39,475
Expenditure before depreciation and impairment	(14,455)	(8,321)	(7,840)	(6,447)	(37,063)
Depreciation and amortisation	(403)	(254)	(269)	(197)	(1,123)
Impairments (net of reversals)	(251)	(118)	(132)	(115)	(616)
Net finance costs	(294)	(216)	(153)	(146)	(809)
Gains /(losses) from transfers by absorption	140	-	51	-	191
Other	4	-	-	2	6
Surplus / (deficit) for the year	122	(105)	25	19	61
<i>Number of trusts</i>	<i>55</i>	<i>38</i>	<i>34</i>	<i>18</i>	<i>145</i>

Reconciliation to Statement of Comprehensive Income

	2013/14	2012/13 restated
	£m	£m
Operating income before impairments and consolidation adjustments	41,897	39,475
Less: Inter FT income adjustment	(704)	(622)
Add: NHS charitable funds consolidation*	14	27
Operating income before impairments	41,207	38,880
Operating expenditure before depreciation, impairments and consolidation adjustments	(39,724)	(37,063)
Depreciation	(1,202)	(1,123)
Less: Inter FT expenditure adjustment	704	622
Add: NHS charitable funds consolidation*	(33)	(30)
Add: Other consolidation adjustments	(1)	2
Operating expenditure before impairments	(40,256)	(37,592)
Operating surplus before impairments	951	1,288
Surplus / (deficit) for the year before consolidation adjustments	(155)	61
Add: Other consolidation adjustments	(1)	2
Add: NHS charitable funds consolidation*	10	13
Surplus / (deficit) for the year	(146)	76

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

Note 3 Operating income - by activity

	2013/14	2012/13
	£m	restated £m
Income from activities		
Acute Trusts		
Elective income	5,463	5,235
Non-elective income	6,501	6,603
Outpatient income	4,694	4,434
A & E income	893	841
Other NHS clinical income	9,348	7,971
Mental Health Trusts		
Cost and Volume Contract income	414	398
Block Contract income	5,337	5,323
Clinical Partnerships providing mandatory services (including S75 agreements)	196	182
Clinical income for the Secondary Commissioning of mandatory services	29	28
Other clinical income from mandatory services	169	178
Ambulance Trusts		
A&E income	717	496
PTS income	73	54
Other income	74	47
Income from providing Community Services		
Income from PCTs	-	2,193
Income from CCGs and NHS England	2,144	-
Income not from CCGs, NHS England or PCTs	211	68
All Trusts		
Private patient income	389	358
Other clinical income	311	289
Total income from activities	36,963	34,698
Other operating income		
Research and development	571	570
Education and training	1,616	1,516
Donations, grants, charitable and other contributions recognised as income in the period	146	149
Non-patient care services to other bodies	579	629
Other	1,085	1,099
Profit on disposal of assets	29	11
Reversal of impairments	237	89
Rental revenue from operating leases	47	40
Amortisation of PFI deferred credits	-	1
Income in respect of staff costs where accounted on gross basis	118	109
Incoming resources excluding investment income, relating to NHS charitable funds	53	58
Total other operating income	4,481	4,271
Total operating income	41,444	38,969

Note 4 Operating income - by source

	2013/14	2012/13 restated
Income from activities	£m	£m
NHS Trusts	97	75
Strategic Health Authorities	-	435
CCGs and NHS England	34,990	-
Primary Care Trusts	-	32,873
Local Authorities	973	480
Department of Health - grants	1	3
Department of Health - other	16	7
NHS Other	134	125
Non-NHS: Private patients	381	352
Non-NHS: Overseas patients (chargeable to patient)	27	20
NHS injury cost recovery scheme	105	105
Non-NHS: Other	239	223
Total income from activities	36,963	34,698
Other operating income (see detail provided in note 3)		
Total other operating income	4,481	4,271
Total operating income	41,444	38,969

Note 5.1 Operating lease income

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

	2013/14	2012/13 restated
	£m	£m
Operating Lease Income		
Rents recognised as income in the period	43	36
Contingent rents recognised as income in the period	2	2
Other income recognised in the period	2	2
Total	47	40
Future minimum lease payments due		
On leases of Land expiring		
- not later than one year;	3	2
- later than one year and not later than five years;	9	4
- later than five years.	139	93
On leases of Buildings expiring		
- not later than one year;	27	22
- later than one year and not later than five years;	67	69
- later than five years.	79	106
On other leases expiring		
- not later than one year;	1	3
- later than one year and not later than five years;	2	2
- later than five years.	-	-
Total	327	301

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.

	2013/14	2012/13
	£m	£m
Minimum lease payments	333	314
Contingent rents	-	1
Less sublease payments received	(2)	(3)
Total	331	312
Future minimum lease payments due:		
- not later than one year;	255	259
- later than one year and not later than five years;	491	454
- later than five years.	516	510
Total	1,262	1,223
Total of future minimum sublease lease receipts to be received at the date of the Statement of Financial Position	(8)	(5)

Note 6.1 Operating expenses

	2013/14	2012/13 restated
	£m	£m
Services from NHS Trusts	174	186
Services from Primary Care Trusts	-	138
Services from CCGs and NHS England	22	-
Services from other NHS Bodies	51	56
Purchase of healthcare from non NHS bodies	412	331
Employee Expenses - Executive directors	149	142
Employee Expenses - Non-executive directors	20	19
Employee Expenses - Staff	25,957	24,313
Drug costs	3,186	2,798
Supplies and services - clinical (excluding drug costs)	3,216	2,987
Supplies and services - general	718	685
Establishment	494	481
Research and development	178	184
Transport	306	239
Premises	1,850	1,777
Increase / (decrease) in provision for impairment of receivables	74	29
Increase in other provisions	65	12
Change in provisions discount rate(s)	8	1
Inventories write down	4	4
Inventories consumed	186	177
Rentals under operating leases	331	312
Depreciation on property, plant and equipment	1,143	1,068
Amortisation on intangible assets	59	55
Impairments of property, plant and equipment, intangible assets, investment property and assets held for sale	606	704
Audit fees *		
audit services - statutory audit	10	10
audit services - regulatory reporting	1	1
Other auditors' remuneration	8	8
Clinical negligence	522	502
Loss on disposal of assets	18	25
Legal fees	47	52
Consultancy costs	235	194
Training, courses and conferences	180	141
Patient travel	26	26
Car parking & Security	16	14
Redundancy	63	114
Early retirements	7	7
Hospitality	4	3
Publishing	2	1
Insurance	35	30
Other services, eg external payroll	85	69
Grossing up consortium arrangements	8	10
Losses, ex gratia & special payments	11	20
Other	340	342
NHS charitable funds: Other resources expended	35	29
Total Operating Expenses	40,862	38,296

* 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 £68,000 (2012/13: £73,200).

Note 6.2 Other auditors' remuneration

Other auditor remuneration paid to external auditors is made up as follows:

	2013/14	2012/13 restated
	£m	£m
1. The auditing of accounts of any associate of the Trust;	-	-
2. Audit-related assurance services;	1	1
3. Taxation compliance services;	1	1
4. All taxation advisory services not falling within item 3 above;	-	-
5. internal audit services;	-	-
6. All assurance services not falling within items 1 to 5;	1	-
7. Corporate finance transaction services not falling within items 1 to 6 above; and	1	-
8. All other non-audit services not falling within items 2 to 7 above	4	6
Total	8	8

Note 6.3 Limitation on auditors' liability

97 (2012/13 restated: 95) 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 2013/14 ranges between £0.5 million to £5 million (2012/13 restated: £0.5 million to £5 million). The 2013/14 figure has been restated as one NHS foundation trust identified an error in its reporting to Monitor which has now been corrected.

Note 7.1 Staff costs

	2013/14		2012/13 restated
	Permanent	Other	Total
	£m	£m	£m
Salaries and wages	19,992	860	20,852
Social security costs	1,496	122	1,618
Employers' contributions to NHS Pensions	2,207	220	2,427
Pension cost - other	3	1	4
Other post-employment benefits	-	-	-
Other employment benefits	-	-	-
Termination benefits	41	11	52
Agency/contract staff	-	1,396	1,396
NHS charitable funds staff	2	1	3
Total gross staff costs	23,741	2,611	26,352
Income in respect of staff costs where netted off expenditure	(60)	(4)	(64)
Total staff costs	23,681	2,607	26,288

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)

			2013/14	2012/13 restated
	Permanent Number	Other Number	Total Number	Total Number
Medical and dental	54,099	7,158	61,257	57,771
Ambulance staff	10,570	48	10,618	9,575
Administration and estates	125,818	3,989	129,807	122,902
Healthcare assistants and other support staff	81,671	2,758	84,429	79,140
Nursing, midwifery and health visiting staff	202,708	5,610	208,318	199,610
Nursing, midwifery and health visiting learners	3,254	191	3,445	2,455
Scientific, therapeutic and technical staff	85,310	1,835	87,145	82,883
Social care staff	1,520	383	1,903	2,003
Bank and agency staff	-	29,994	29,994	25,367
Other	3,548	92	3,640	7,211
Total	568,498	52,058	620,556	588,917

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 2013/14, the contribution rate was 14% (2012/13: 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 2013/14 there were 819 retirements on the grounds of ill-health (2012/13 restated: 776). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £51 million (2012/13 restated: £45 million). The restatements are due to two trusts identifying errors made in their reporting to Monitor in 2012/13 which have now been corrected.

Note 10.1 Exit packages: other compensation schemes 2013/14

	Number of compulsory redundancies Number	Cost of compulsory redundancies £m	Number of other departures agreed Number	Cost of other departures agreed £m	Total number of exit packages Number	Total cost of exit packages £m
Exit package cost band (including any special payment element)						
< £10,000	375	2	621	3	996	5
£10,001 - £25,000	400	7	415	7	815	14
£25,001 - £50,000	327	11	340	12	667	23
£50,001 - £100,000	218	15	188	13	406	28
£100,001 - £150,000	68	8	33	4	101	12
£150,001 - £200,000	22	4	11	2	33	6
> £200,001	11	3	6	1	17	4
Total	1,421	50	1,614	42	3,035	92

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

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

The note below provides further analysis of the 'other departures' disclosed in this note. Prior year comparatives were not collected from NHS foundation trusts for this note.

Note 10.2 Exit packages: other (non-compulsory) departure payments 2013/14

	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	473	20
Mutually agreed resignations (MARS) contractual costs	688	15
Early retirements in the efficiency of the service contractual costs	13	1
Contractual payments in lieu of notice	410	4
Exit payments following Employment Tribunals or court orders	57	1
Non-contractual payments requiring HMT approval*	41	1
TOTAL	1,682	42
Of which: non-contractual payments made to individuals where the payment value was more than 12 months' of their annual salary	106	7

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

Prior year comparatives were not collected from NHS foundation trusts for this note.

As a single exit packages can be made up of several components, each of which will be counted separately in this note, the total number in note 10.2 does not match the total numbers in note 10.1 which is the number of individuals.

Exit packages disclosed in this note differ from the redundancy figure included within note 6.1. The redundancy figure in note 6.1 includes additional costs which are not exit packages payable directly to the employee.

Note 11 The late payment of commercial debts (Interest) Act 1998

In 2013/14 14 NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- Bolton NHS Foundation Trust;
- Central and North West London NHS Foundation Trust;
- Dorset Healthcare University NHS Foundation Trust;
- Frimley Park Hospital NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;
- The Hillingdon Hospitals NHS Foundation Trust;
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Medway NHS Foundation Trust;
- Northamptonshire Healthcare NHS Foundation Trust;
- North Essex Partnership University NHS Foundation Trust;
- South Western Ambulance Service NHS Foundation Trust;
- Warrington and Halton Hospitals NHS Foundation Trust; and
- Western Sussex Hospitals NHS Foundation Trust.

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £38,000.

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.

Note 12 Finance income

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

	2013/14	2012/13 restated
	£m	£m
Interest on bank accounts	14	25
Interest on loans and receivables	2	5
Interest on impaired financial assets	-	-
Interest on held-to-maturity financial assets	-	1
NHS charitable funds investment income	7	8
Other	-	1
Total	23	40

Note 13 Finance expenditure

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

	2013/14	2012/13
	£m	£m
Loans from the Independent Trust Financing Facility	43	36
Loans from the Department of Health	3	2
Commercial loans	-	-
Finance leases	10	10
Interest on late payment of commercial debt	-	-
Other	-	1
Finance costs in PFI obligations and other service concession arrangements (excluding LIFT)		
Main finance costs	267	263
Contingent finance costs	77	66
Finance costs on LIFT scheme obligations		
Main finance costs	1	-
Contingent finance costs	-	-
Other finance costs	1	1
Total	402	379

Note 14 Discontinued operations

	2013/14	2012/13
	£m	restated £m
Operating income of discontinued operations (included within note 3)	-	27
Operating expenses of discontinued operations (included within note 6.1)	-	(26)
Surplus/(deficit) of discontinued operations	-	1

One NHS foundation trust has reported discontinued operations in 2013/14 for which operating income and expenditure are less than £0.5m in value (2012/13: Five). There were no gains/losses on disposal reported in either year. These discontinued operations are not material to the consolidated NHS Foundation Trust accounts. These amounts have therefore not been shown separately on the face of the Statement of Comprehensive Income and the prior year figures have not been restated.

Note 15.1 Intangible assets 2013/14

	Software licences (purchased)	Licences & trademarks (purchased)	Information technology (internally generated)	Development expenditure (internally generated)	Other (purchased)	Intangible assets under construction	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Valuation/Gross cost at 1 April 2013 - as previously stated	370	4	70	17	3	48	-	512
Prior period adjustments - cost/ depreciation	(21)	-	(1)	-	-	-	-	(22)
Valuation/Gross cost at 1 April 2013 - restated	349	4	69	17	3	48	-	490
Gross cost at start of period for new FTs	14	-	-	-	-	-	-	14
Transfers under absorption accounting (see note 39)	10	-	-	-	-	(5)	-	5
Additions - purchased/ internally generated	45	1	7	2	1	59	-	115
Additions - grants/ donations	2	-	-	-	-	1	-	3
Impairments and reversals charged to expenditure/income	-	-	(4)	-	(1)	-	-	(5)
Reclassifications	42	-	3	5	1	(30)	-	21
Disposals	(15)	-	(7)	-	(1)	(1)	-	(24)
Valuation/Gross cost at 31 March 2014	447	5	68	24	3	72	-	619
Amortisation at 1 April 2013 - as previously stated	230	3	32	7	1	-	-	273
Prior period adjustments - cost/ depreciation	(21)	-	(1)	-	-	-	-	(22)
Amortisation at 1 April 2013 - restated	209	3	31	7	1	-	-	251
Amortisation at start of period for new FTs	8	-	-	-	-	-	-	8
Transfers under absorption accounting (see note 39)	4	-	-	-	-	-	-	4
Provided during the year	43	1	11	4	-	-	-	59
Impairments and reversals charged to expenditure/income	3	-	(1)	-	-	-	-	2
Reclassifications	3	-	-	(1)	-	-	-	2
Disposals	(15)	-	(7)	-	(1)	-	-	(23)
Amortisation at 31 March 2014	255	4	34	10	-	-	-	303
Net book value at 31 March 2014	192	1	34	14	3	72	-	316
Net book value at 1 April 2013 (restated)	140	1	38	10	2	48	-	239

Note 15.2 Intangible assets 2012/13 - restated	Software licences (purchased)	Licences & trademarks (purchased)	Information technology (internally generated)	Development expenditure (internally generated)	Other (purchased)	Intangible assets under construction	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Valuation/Gross cost at 1 April 2012 - as previously stated	273	3	65	6	3	43	-	393
Prior period adjustments	-	1	-	2	-	24	-	27
Valuation/Gross cost at 1 April 2012 - restated	273	4	65	8	3	67	-	420
Valuation/Gross cost at start of period for new FTs	1	-	-	2	-	-	-	3
Transfers by absorption	5	-	-	1	-	-	-	6
Additions - purchased/ internally generated	45	-	5	5	-	31	-	86
Additions - grants/ donations	1	-	-	-	1	-	-	2
Impairments and reversals recognised in the revaluation reserve	-	-	-	-	-	-	-	-
Reclassifications	50	-	8	2	-	(50)	-	10
Revaluations	(2)	-	-	-	(1)	-	-	(3)
Disposals	(3)	-	(8)	(1)	-	-	-	(12)
Gross cost at 31 March 2013	370	4	70	17	3	48	-	512
Amortisation at 1 April 2012 - as previously stated	162	1	26	2	1	3	-	195
Prior period adjustments	(1)	1	1	1	-	-	-	2
Amortisation at 1 April 2012 - restated	161	2	27	3	1	3	-	197
Amortisation at start of period for new FTs	1	-	-	1	-	-	-	2
Transfers by absorption	4	-	-	1	-	-	-	5
Provided during the year	41	1	10	2	1	-	-	55
Impairments and reversals charged to expenditure/income	27	-	-	-	-	-	-	27
Reclassifications	2	-	1	-	-	(3)	-	-
Revaluation surpluses	(2)	-	-	-	(1)	-	-	(3)
Disposals	(4)	-	(6)	-	-	-	-	(10)
Amortisation at 31 March 2013	230	3	32	7	1	-	-	273
Net book value at 31 March 2013	140	1	38	10	2	48	-	239
Net book value at 1 April 2012 (restated)	112	2	38	5	2	64	-	223

Note 15.3 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	NHS charitable fund assets £m	Total £m
Net book value								
NBV - Purchased at 31 March 2014	189	1	34	14	2	71	-	311
NBV - Finance leases at 31 March 2014	1	-	-	-	-	-	-	1
NBV - Donated and government grant funded at 31 March 2014	2	-	-	-	1	1	-	4
NBV total at 31 March 2014	192	1	34	14	3	72	-	316
Net book value								
NBV - Purchased at 31 March 2013	138	1	37	10	1	47	-	234
NBV - Finance Leases at 31 March 2013	1	-	-	-	-	-	-	1
NBV - Donated and government grant funded at 31 March 2013	1	-	1	-	1	1	-	4
NBV total at 31 March 2013 (restated)	140	1	38	10	2	48	-	239

Note 16.1 Property, Plant and Equipment 2013/14	Land	Buildings excluding dwellings	Dwellings	Assets under construction & POA	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Valuation/Cost at 1 April 2013 - as previously stated	3,213	17,839	230	760	4,161	227	1,350	328	13	28,121
Prior period adjustments - cost/ depreciation	(22)	(604)	(8)	(4)	(12)	-	(9)	(2)	-	(661)
Prior period adjustments	(6)	(60)	-	-	(1)	-	-	-	-	(67)
Valuation/Gross cost at 1 April 2013 - restated	3,185	17,175	222	756	4,148	227	1,341	326	13	27,393
Valuation/Gross cost at start of period for new FTs	66	341	11	11	82	-	17	4	-	532
Transfers under absorption accounting (see note 39)	224	651	2	14	52	1	21	14	-	979
Additions - purchased/ leased/ grants/ donations	12	492	23	1,071	281	14	145	15	2	2,055
Impairments/reversals charged to expenditure/income	(19)	(141)	(1)	(13)	(2)	-	(8)	(1)	-	(185)
Impairments/reversals recognised in reserves	(73)	(141)	(2)	-	-	-	-	-	-	(216)
Reclassifications	3	691	(1)	(912)	80	16	72	7	(7)	(51)
Transfer to/from assets held for sale or disposal group	(51)	(11)	(2)	-	-	-	-	-	-	(64)
Revaluations	73	(82)	2	(3)	2	-	(1)	-	1	(8)
Disposals	(20)	(35)	(4)	(1)	(202)	(24)	(110)	(24)	-	(420)
Valuation/Gross cost at 31 March 2014	3,400	18,940	250	923	4,441	234	1,477	341	9	30,015
Accumulated depreciation at 1 April 2013	77	2,460	31	12	2,691	138	931	212	2	6,554
Prior period adjustments - cost/ depreciation	(22)	(604)	(8)	(4)	(12)	-	(9)	(2)	-	(661)
Prior period adjustments	(3)	(49)	-	(2)	(1)	-	-	-	-	(55)
Accumulated depreciation at 1 April 2013- restated	52	1,807	23	6	2,678	138	922	210	2	5,838
Depreciation at start of period for new FTs	2	101	3	-	53	-	14	3	-	176
Transfers under absorption accounting (see note 39)	-	38	-	-	21	-	4	4	-	67
Provided during the year	-	590	8	-	342	24	153	26	-	1,143
Impairments/reversals charged to expenditure/income	33	126	-	5	3	2	3	-	-	172
Impairments/reversals recognised in reserves	1	(2)	-	-	-	-	-	-	-	(1)
Reclassifications	-	(17)	-	(3)	2	-	(3)	(1)	-	(22)
Transfer to/from asset held for sale or disposal group	-	2	-	-	-	-	-	-	-	2
Revaluation surpluses	(30)	(615)	(8)	(3)	2	-	(1)	-	-	(655)
Disposals	-	(13)	-	-	(191)	(23)	(109)	(23)	-	(359)
Accumulated depreciation at 31 March 2014	58	2,017	26	5	2,910	141	983	219	2	6,361
Net book value at 31 March 2014	3,342	16,923	224	918	1,531	93	494	122	7	23,654
Net book value at 1 April 2013 (restated)	3,133	15,368	199	750	1,470	89	419	116	11	21,555

Note 16.2 Property, Plant and Equipment 2012/13 - restated	Land	Buildings excluding dwellings	Dwellings	Assets under construction & POA	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Valuation/Cost at 1 April 2012 - as previously stated	3,144	17,463	233	756	3,949	177	1,220	311	-	27,253
Prior period adjustments	54	4	(2)	(41)	(5)	1	-	(1)	15	25
Valuation/Gross cost at 1 April 2012 - restated	3,198	17,467	231	715	3,944	178	1,220	310	15	27,278
Valuation/Gross cost at start of period for new FTs	91	194	-	30	74	19	22	3	-	433
Transfers by absorption	31	137	2	3	33	25	21	1	-	253
Additions - purchased/ leased/ grants/ donations	9	415	2	822	243	11	112	13	5	1,632
Impairments/reversals recognised in reserves	(89)	(238)	(4)	-	-	-	-	-	-	(331)
Reclassifications	2	601	6	(785)	97	7	42	17	(7)	(20)
Transfer to/from asset held for sale or disposal group	(38)	(24)	(3)	-	-	-	-	-	-	(65)
Revaluations	16	(662)	(1)	(17)	9	-	-	-	-	(655)
Disposals	(7)	(51)	(3)	(8)	(239)	(13)	(67)	(16)	-	(404)
Valuation/Gross cost at 31 March 2013	3,213	17,839	230	760	4,161	227	1,350	328	13	28,121
Accumulated depreciation at 1 April 2012 - as previously stated	59	2,176	30	29	2,515	101	832	204	-	5,946
Prior period adjustments	54	1	(1)	(16)	(4)	-	-	(2)	2	34
Accumulated depreciation at 1 April 2012 - restated	113	2,177	29	13	2,511	101	832	202	2	5,980
Depreciation at start of period for new FTs	-	29	-	-	57	15	13	1	-	115
Transfers by absorption	-	2	-	-	21	14	14	1	-	52
Provided during the year	-	552	8	-	326	21	139	22	-	1,068
Impairments/reversals charged to expenditure/income	19	535	2	19	5	-	1	-	-	581
Reclassifications	-	8	-	(4)	(4)	-	(4)	1	-	(3)
Transfer to/from asset held for sale or disposal group	-	(4)	-	-	-	-	-	-	-	(4)
Revaluation surpluses	(53)	(800)	(7)	(16)	5	-	-	-	-	(871)
Disposals	(2)	(39)	(1)	-	(230)	(13)	(64)	(15)	-	(364)
Accumulated depreciation at 31 March 2013	77	2,460	31	12	2,691	138	931	212	2	6,554
Net book value at 31 March 2013	3,136	15,379	199	748	1,470	89	419	116	11	21,567
Net book value at 1 April 2012 (restated)	3,085	15,290	202	702	1,433	77	388	108	13	21,298

Note 16.3 Property, Plant and Equipment financing

	Land	Buildings excluding dwellings	Dwellings	Assets under construction & POA	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net book value at 31 March 2014										
Owned	3,161	12,278	184	876	1,298	90	477	109	7	18,480
Finance Lease	53	93	17	-	60	2	10	1	-	236
On-balance-sheet PFI contracts and other service concession arrangements	19	3,798	14	2	16	-	-	-	-	3,849
PFI residual interests	-	1	1	-	-	-	-	-	-	2
Government granted	-	26	-	1	4	-	-	1	-	32
Donated	109	727	8	39	153	1	7	11	-	1,055
NBV total at 31 March 2014	3,342	16,923	224	918	1,531	93	494	122	7	23,654
Net book value - 31 March 2013 (restated)										
Owned	2,977	10,967	159	719	1,226	85	400	103	11	16,647
Finance Lease	58	77	18	-	55	3	8	1	-	220
On-balance-sheet PFI contracts and other service concession arrangements	4	3,612	14	2	13	-	-	-	-	3,645
PFI residual interests	-	2	1	-	-	-	-	-	-	3
Government granted	-	25	-	2	5	-	1	1	-	34
Donated	94	685	7	27	171	1	10	11	-	1,006
NBV total at 31 March 2013	3,133	15,368	199	750	1,470	89	419	116	11	21,555

Note 17.1 Investments

Movements in investments 2013/14	Investment property 2013/14 £m	Investments in associates (and jointly controlled operations) 2013/14 £m	Other investments 2013/14 £m
Carrying Value at 1 April 2013 - as previously stated	90	15	178
Prior period adjustments	-	-	-
Carrying Value at 1 April 2013 - restated	90	15	178
At start of period for new FTs	-	-	-
Transfers by absorption	-	-	2
Acquisitions in year	-	2	269
Share of profit/(loss)	-	3	-
Movement in fair value taken to income and expenditure	22	-	4
Movement in fair value recognised in other comprehensive income	-	-	2
Reclassification to/ from PPE	10	-	-
Transfers to/ from assets held in disposal groups	(1)	-	-
Disposals	-	(3)	(274)
Carrying Value at 31 March 2014	121	17	181
Held by:			
NHS foundation trusts excluding charitable funds	67	17	1
NHS charitable funds	54	-	180

Movements in investments 2012/13 - restated	Investment Property 2012/13 £m	Investments in associates (and jointly controlled operations) 2012/13 £m	Other Investments 2012/13 £m
Carrying Value at 1 April 2012 - as previously stated	59	7	-
Prior period adjustments	25	-	166
Carrying Value at 1 April 2012 - restated	84	7	166
At start of period for new FTs	-	-	-
Acquisitions in year - subsequent expenditure	-	-	4
Acquisitions in year – other	-	5	190
Share of profit/(loss)	-	3	-
Movement in fair value taken to income and expenditure	(1)	-	12
Movement in fair value recognised in other comprehensive income	-	-	6
Reclassification to/ from PPE	7	-	-
Transfers to/ from assets held in disposal groups	-	-	-
Disposals	-	-	(200)
Carrying Value at 31 March 2013	90	15	178
Held by:			
NHS foundation trusts excluding charitable funds	60	15	-
NHS charitable funds	30	-	178

Note 17.2 Investment Property income and direct operating expenses

Investment properties are held for the purpose of capital gains or for rental income rather than for use in the provision of services to patients.

	2013/14 £m	2012/13 £m
Investment Property income	4	4
Direct operating expenses arising from investment properties:		
which generated income in the period	1	1
which did not generate income in the period	1	-

Note 18.1 Fair value of investments in associates and jointly controlled operations

NHS foundation trusts may hold investments in other entities over which they have significant influence or hold jointly controlled operations, assets or entities. The fair value of these investments is disclosed below.

	Assets £m	Liabilities £m	Revenues £m	Profit/(Loss) £m
31 March 2014	47	(21)	92	-
31 March 2013 restated	40	(16)	60	1

Note 18.2 Disclosure of aggregate amounts for assets and liabilities of associates and jointly controlled operations accounted for using the proportionate consolidation method

	31 March 2014 £m	31 March 2013 £m
Current assets	25	22
Non-current assets	38	35
Total assets	63	57
Current liabilities	(26)	(27)
Non-current liabilities	(18)	(13)
Total liabilities	(44)	(40)
	2013/14 £m	2012/13 £m
Operating income	131	91
Operating expenses	(130)	(90)
Surplus /(deficit) for the year	1	1

Note 19 Impairment of assets

Under public sector accounting requirements, impairments are either charged to operating expenditure or the revaluation reserve. More detail is provided in accounting policy 1.6 and 1.11. Impairments reduce the value of assets. The note below provides detail about the reasons for impairments.

	2013/14			2012/13 restated
	Impairments	Reversals	Net impairments	Net impairments
	£m	£m	£m	£m
Impairments charged to operating expenses and income:				
Loss or damage from normal operations	10	(1)	9	13
Loss as a result of catastrophe	1	-	1	-
Abandonment of assets in course of construction	3	-	3	1
Unforeseen obsolescence	4	-	4	1
Over specification of assets	36	-	36	9
Other	103	(15)	88	121
Changes in market price	449	(221)	228	470
Total impairments charged to operating expenses and income	606	(237)	369	615
Impairments charged to the revaluation reserve	247	(32)	215	331
Total impairments	853	(269)	584	946

Note 20.1 Inventories

	31 March 2014	31 March 2013 restated
	£m	£m
Drugs	164	152
Consumables	292	274
Energy	8	9
Inventories carried at fair value less costs to sell	4	4
Work in progress	1	-
Other	21	21
Total inventories	490	460

Note 20.2 Inventories recognised in expenses

	2013/14	2012/13
	£m	£m
Inventories recognised in expenses	4,497	3,885
Write-down of inventories recognised as an expense	4	5
Total inventories recognised in expenses	4,501	3,890

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 21.1 Trade and other receivables

	31 March 2014	31 March 2013 restated	01 April 2012 restated
	£m	£m	£m
Current			
NHS receivables	1,148	614	565
Other receivables with related parties	155	107	108
Provision for impaired receivables	(252)	(196)	(184)
Deposits and advances	2	-	-
Prepayments (Non-PFI)	269	229	211
PFI prepayments	31	22	20
Accrued income	344	250	236
Interest receivable	-	1	1
Finance lease receivables	-	-	-
PDC dividend receivable	17	21	17
VAT receivable	93	71	66
Other receivables	498	467	398
Capital receivables	15	6	12
NHS charitable funds trade and other receivables	4	5	3
Total current trade and other receivables	2,324	1,597	1,453
Non-Current			
NHS receivables	-	3	30
Other receivables with related parties	12	14	12
Provision for impaired receivables	(10)	(9)	(11)
Prepayments (Non-PFI)	14	12	20
PFI prepayments	143	104	84
Accrued income	8	8	12
Interest receivable	-	-	-
Finance lease receivables	1	3	5
Other receivables	62	65	69
Capital receivables	8	1	-
NHS charitable funds trade and other receivables	-	-	-
Total non-current trade and other receivables	238	201	221

Note 21.2 Intra-government receivable balances

	Current 2013/14 £m	Non- current 2013/14 £m	Current 2012/13 £m	Non- current 2012/13 £m
Balances with the Department of Health and other NHS bodies	1,369	-	774	3
Balances with other central government bodies	124	5	101	6
Balances with local authorities	126	3	61	4
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra- government balances	1,619	8	936	13
Balances with bodies external to government	705	230	661	188
Total receivable at 31 March	2,324	238	1,597	201

Note 21.3 Provision for impairment of receivables

	2013/14	2012/13
	£m	£m
At 1 April - as previously stated	205	195
Prior period adjustments	-	-
At 1 April - restated	205	195
At start of period for new NHS foundation trusts	1	14
Transfers under absorption accounting (see note 39)	-	1
Increase in provision	119	84
Amounts utilised	(18)	(34)
Unused amounts reversed	(45)	(55)
At 31 March	262	205

Note 21.4 Analysis of impaired receivables

	31 March 2014		31 March 2013 restated	
	Trade Receivables	Other receivables	Trade Receivables	Other receivables
	£m	£m	£m	£m
Ageing of impaired receivables				
0 - 30 days	52	7	39	7
30-60 days	11	2	9	2
60-90 days	12	2	9	2
90- 180 days	28	7	19	5
over 180 days	113	49	92	44
Total	216	67	168	60
Ageing of non-impaired receivables past their due date				
0 - 30 days	487	93	360	116
30-60 days	124	21	64	28
60-90 days	105	13	51	10
90- 180 days	87	18	34	18
over 180 days	60	93	34	82
Total	863	238	543	254

Note 22 Other financial assets

	31 March 2014	31 March 2013 restated	01 April 2012 restated
	£m	£m	£m
Non-current			
Held to maturity investments	-	-	-
Loan and receivables	4	1	4
NHS charitable funds: Other financial assets	-	-	-
Total	4	1	4
Current			
Held to maturity investments	-	-	11
Loan and receivables	17	38	34
NHS charitable funds: Other financial assets	3	3	10
Total	20	41	55

Note 23 Non-current assets held for sale and assets in disposal groups

	2013/14		2012/13	
	Property, Plant and Equipment £m	Other £m	Total £m	Total £m
NBV of non-current assets held for sale and assets in disposal groups at 1 April - as previously stated	114	-	114	116
Prior period adjustments	-	-	-	-
NBV of non-current assets held for sale and assets in disposal groups at 1 April - restated	114	-	114	116
At start of period for new FTs	3	-	3	-
Transfers under absorption accounting (see note 39)	4	-	4	1
Plus assets classified as available for sale in the year	74	1	75	63
Less assets sold in year	(71)	-	(71)	(58)
Less Impairment of assets held for sale	(5)	-	(5)	(7)
Plus Reversal of impairment of assets held for sale	-	-	-	1
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(8)	-	(8)	(2)
NBV of non-current assets for sale and assets in disposal groups at 31 March	111	1	112	114

Note 24 Cash and cash equivalents

	2013/14	2012/13 restated
	£m	£m
At 1 April - as previously stated	4,581	3,947
Prior period adjustments	-	94
At 1 April - restated	4,581	4,041
At start of period for new FTs	24	76
Transfers under absorption accounting (see note 39)	-	13
Net change in year	(291)	451
At 31 March	4,314	4,581
Broken down into:		
Cash at commercial banks and in hand	117	123
Cash with the Government Banking Service	3,877	4,336
Other current investments	219	20
NHS charitable funds cash and cash equivalents	101	102
Cash and cash equivalents as in Statement of Financial Position	4,314	4,581
Bank overdraft	(5)	(4)
Cash and cash equivalents as in Statement of Cash Flows	4,309	4,577

Note 25.1 Trade and other payables

	31 March 2014	31 March 2013 restated	01 April 2012 restated
	£m	£m	£m
Current			
Receipts in advance	62	54	68
NHS payables	269	229	323
Amounts due to other related parties	221	214	201
Other trade payables	833	722	592
Capital payables	321	267	226
Social security costs	237	223	203
VAT payable	2	1	2
Other taxes payable	262	236	240
Other payables	453	434	385
Accruals	1,563	1,453	1,211
PDC dividend payable	5	3	2
NHS charitable funds trade and other payables	5	5	6
Total current trade and other payables	4,233	3,841	3,459
Non-current			
Receipts in advance	1	1	1
NHS payables	2	2	3
Amounts due to other related parties	3	7	9
Other trade payables	2	1	1
Capital payables	1	2	3
VAT payable	3	3	-
Other taxes payable	-	-	-
Other payables	9	11	13
Accruals	-	1	1
Total non-current trade and other payables	21	28	31

Note 25.2 Intra-government payable balances

	Current 2013/14 £m	Non- current 2013/14 £m	Current 2012/13 £m	Non- current 2012/13 £m
Balances with the Department of Health and other NHS bodies	354	2	295	2
Balances with other central government bodies	800	3	720	4
Balances with local authorities	37	-	31	-
Balances with public corporations and trading funds	27	-	17	-
Subtotal: intra- government balances	1,218	5	1,063	6
Balances with bodies external to government	3,015	16	2,778	22
Total payables at 31 March	4,233	21	3,841	28

Note 25.3 Early retirements detail included in NHS payables above

	2013/14 £m	2012/13 restated £m
To buy out the liability for early retirements over 5 years	2	1
Outstanding pension contributions	46	47
	Number	Number
Number of cases involved	165	271

Note 26.1 Borrowings

	31 March 2014 £m	31 March 2013 restated £m	01 April 2012 restated £m
Current			
Bank overdrafts - commercial banks	5	4	5
Drawdown in committed facility	-	-	8
Loans from the Independent Trust Financing Facility	103	80	66
Loans from the Department of Health	14	11	14
Other Loans	6	3	2
Obligations under finance leases	23	23	23
Obligations under PFI, LIFT or other service concession contracts (excl. lifecycle)	164	97	96
Total current borrowings	315	218	214
Non-current			
Loans from the Independent Trust Financing Facility	1,436	1,041	863
Loans from the Department of Health	75	55	63
Other loans	110	2	3
Obligations under finance leases	109	104	102
Obligations under PFI, LIFT or other service concession contracts	4,205	4,228	4,322
Total non-current liabilities	5,935	5,430	5,353

Note 26.2 Prudential Borrowing Limit

Prudential Borrowing Limit disclosures are no longer required, as the Prudential Borrowing Code was repealed by the Health and Social Care Act 2012. Under Monitor's Risk Assessment Framework, NHS foundation trusts continue to be risk assessed on their ability to meet future repayment commitments and other debt service costs.

Note 27.1 Provisions for liabilities and charges

	Current		Non-current	
	31 March 2014	31 March 2013 restated	31 March 2014	31 March 2013 restated
Pensions	15	15	152	148
Other legal claims	36	36	18	17
Agenda for Change	16	17	1	3
Restructurings	29	34	7	4
Continuing care	3	2	3	-
Equal pay	4	4	7	10
Redundancy	54	76	2	2
Other	209	157	103	78
NHS charitable fund provisions	1	1	-	-
Total	367	342	293	262

Note 27.2 Provisions for liabilities and charges analysis

	Pensions	Other legal claims	Agenda for Change	Restructurings	Continuing care	Equal pay	Redundancy	NHS charitable fund provisions		Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2013 - as previously stated	163	53	20	38	2	14	78	236	1	605
Prior period adjustments	-	-	-	-	-	-	-	(1)	-	(1)
At 1 April 2013 - restated	163	53	20	38	2	14	78	235	1	604
At start of period for new FTs	3	-	-	-	-	-	1	3	-	7
Transfers under absorption accounting	1	1	-	-	-	-	-	1	-	3
Change in the discount rate	5	1	-	-	-	-	-	3	-	9
Arising during the year	11	26	2	19	4	1	48	188	-	299
Utilised during the year	(18)	(15)	(1)	(10)	-	(1)	(46)	(63)	-	(154)
Reversed unused	(2)	(12)	(4)	(11)	-	(3)	(25)	(56)	-	(113)
Unwinding of discount	4	-	-	-	-	-	-	1	-	5
At 31 March 2014	167	54	17	36	6	11	56	312	1	660
Expected timing of cash flows:										
- not later than one year;	15	36	16	29	3	4	54	209	1	367
- between one year and five years;	61	8	1	5	3	7	3	50	-	138
- later than five years.	91	10	-	2	-	-	(1)	53	-	155
Total	167	54	17	36	6	11	56	312	1	660

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

Note 27.3 Clinical negligence liabilities

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

	31 March 2014	31 March 2013 restated
	£m	£m
Amount included in provisions of the NHS Litigation Authority	4,613	4,200

Note 28 Other liabilities

	31 March 2014	31 March 2013 restated	01 April 2012 restated
	£m	£m	£m
Current			
Deferred grants income	21	27	48
Other deferred income	464	451	489
Deferred PFI credits	1	1	1
Lease incentives	1	1	-
NHS charitable funds other liabilities	-	1	-
Net Pension Scheme Liability	-	-	2
Total other current liabilities	487	481	540
Non-current			
Deferred grants income	10	12	13
Other deferred income	141	157	131
Deferred PFI credits	18	19	20
Lease incentives	11	12	7
Net Pension Scheme Liability	11	9	6
Total other non-current liabilities	191	209	177

Note 29 Contractual capital commitments

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

	31 March 2014	31 March 2013 restated
	£m	£m
Property, Plant and Equipment	671	880
Intangible assets	30	16
Total	701	896

Note 30.1 Finance lease receivables

Future lease receipts due to NHS foundation trusts under finance lease agreements where NHS foundation trusts are the lessors:

	31 March 2014	31 March 2013 restated
	£m	£m
Gross lease receivables	3	3
Of which those receivable:		
- not later than one year;	-	-
- later than one year and not later than five years;	-	-
- later than five years.	3	3
Unearned interest income	(2)	-
Net lease receivables	1	3
Of which those receivable:		
- not later than one year;	-	-
- later than one year and not later than five years;	-	-
- later than five years.	1	3

	31 March 2014	31 March 2013 restated
	£m	£m
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	-	-

Note 30.2 Finance lease obligations

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

	31 March 2014	31 March 2013 restated
	£m	£m
Gross lease liabilities	222	230
Of which liabilities are due:		
- not later than one year;	30	30
- later than one year and not later than five years;	80	77
- later than five years.	112	123
Finance charges allocated to future periods	(90)	(103)
Net lease liabilities	132	127
Of which those payable:		
- not later than one year;	23	23
- later than one year and not later than five years;	54	54
- later than five years.	55	50

Note 31.1 On-Statement of Financial Position Private Finance Initiative (PFI) finance lease obligations

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

	31 March 2014	31 March 2013 restated
	£m	£m
Gross PFI liabilities	9,134	9,088
Of which liabilities are due:		
- not later than one year;	512	344
- later than one year and not later than five years;	1,381	1,320
- later than five years.	7,241	7,424
Finance charges allocated to future periods	(4,765)	(4,763)
Net PFI obligation	4,369	4,325
Of which those payable:		
- not later than one year;	164	97
- later than one year and not later than five years;	430	398
- later than five years.	3,775	3,830

Note 31.2 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 2014	31 March 2013 restated
	£m	£m
Commitments in respect of the service element of the PFI		
Within one year	394	357
2nd to 5th years (inclusive)	1,655	1,488
Later than five years	10,583	10,329
Total	12,632	12,174

Note 32.1 Off-Statement of Financial Position PFI: charges

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

	2013/14	2012/13 restated
	Total £m	Total £m
Gross charge to operating expenses in respect of off-Statement of Financial Position PFI transaction(s)	8	7
Amortisation of PFI deferred asset(s)	-	-
Net charge to operating expenses in respect of off-Statement of Financial Position PFI transaction(s)	8	7

Note 32.2 Off-Statement of Financial Position PFI: commitments

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

	31 March 2014	31 March 2013 restated
	Total £m	Total £m
Within one year	7	7
2nd to 5th years (inclusive)	10	16
Later than five years	8	8
Total	25	31

Note 33 Analysis of NHS charitable funds reserves

	31 March 2014	31 March 2013	01 April 2012
	Total £m	Total £m	Total £m
Restricted funds:			
Endowment funds	128	108	103
Other restricted income funds	56	56	49
Unrestricted funds:			
Unrestricted income funds	150	152	146
Revaluation reserve	2	2	1
Other reserves	3	3	1
Total	339	321	300

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

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

34.1 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
Assets included within the SoFP at 31 March 2014					
Trade and other receivables excluding non-financial assets	2,111	-	-	-	2,111
Other investments	1	-	-	-	1
Other financial assets	21	-	-	-	21
Cash and cash equivalents at bank and in hand	4,214	-	-	-	4,214
NHS charitable funds financial assets	132	89	-	19	240
Total at 31 March 2014	6,479	89	-	19	6,587

Assets included within the SoFP at 31 March 2013 (restated)

Trade and other receivables excluding non-financial assets	1,404	-	-	-	1,404
Other investments	-	-	-	-	-
Other financial assets	38	-	-	-	38
Cash and cash equivalents at bank and in hand	4,483	-	-	-	4,483
NHS charitable funds financial assets	81	93	-	17	191
Total at 31 March 2013 (restated)	6,006	93	-	17	6,116

34.2 Financial liabilities by category

	Other financial liabilities £m	Liabilities at fair value through the I&E £m	Total £m
Liabilities included within the SoFP at 31 March 2014			
Borrowings excluding finance lease and PFI liabilities	1,748	-	1,748
Obligations under finance leases	136	-	136
Obligations under PFI, LIFT and other service concession contracts	4,369	-	4,369
Trade and other payables excluding non-financial liabilities	3,484	-	3,484
Other financial liabilities	286	-	286
Provisions under contract	378	-	378
NHS charitable funds financial liabilities	5	-	5
Total at 31 March 2014	10,406	-	10,406

Liabilities included within the SoFP at 31 March 2013 (restated)

Borrowings excluding finance lease and PFI liabilities	1,196	-	1,196
Obligations under finance leases	126	-	126
Obligations under PFI, LIFT and other service concession contracts	4,325	-	4,325
Trade and other payables excluding non-financial liabilities	2,884	-	2,884
Other financial liabilities	290	-	290
Provisions under contract	359	-	359
NHS charitable funds financial liabilities	5	-	5
Total at 31 March 2013 (restated)	9,185	-	9,185

Note 34.3 Financial risk management

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

Liquidity risk

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

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

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

As disclosed within the accounting policies at Note 1.23, the auditors of 13 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 and overseas patients without reciprocal arrangements, however this income contributes only 1.10% of total income from activities generated in the year to 31 March 2014 (2012/13: 1.07%). Other sources of income from non-public sector bodies amount to a small proportion of total foundation trust income. Accordingly, the effective credit risk posed by income derived from private and overseas patients or non-public sector entities to the sector is low.

The maximum exposures as at 31 March 2014 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 Independent Trust Financing Facility (ITFF), managed by the Department of Health. The term of ITFF loans can range up to 25 years with the interest rate fixed at the National Loan Fund fixed rate for the period of the loan prevailing on the date of signing of the loan agreement.

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 may be 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 Risk Assessment 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 35 Fair values of financial assets and financial liabilities

Financial assets	Book Value	Fair value
	£m	£m
Non-current trade and other receivables excluding non-financial assets	132	124
Other Investments	-	-
Other	507	488
NHS charitable funds non-current financial assets	38	39
Total at 31 March 2014	677	651

Financial liabilities	Book Value	Fair value
	£m	£m
Non-current trade and other payables excluding non-financial liabilities	114	92
Provisions under contract	196	192
Loans	1,814	1,755
Other	1,770	1,766
NHS charitable funds non-current financial assets	1	1
Total at 31 March 2014	3,895	3,806

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 36 Contingent assets and liabilities

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

	31 March 2014	31 March 2013
	£m	restated £m
Value of contingent liabilities		
Equal pay	-	-
Other	(28)	(21)
Gross value of contingent liabilities	(28)	(21)
Amounts recoverable against liabilities	17	14
Net value of contingent liabilities	(11)	(7)
Net value of contingent assets	3	2

Note 37.1 Pensions: Movements in defined benefit obligation and fair value of plan assets

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

As set out in accounting policy 1.3, some foundation trusts are also members of local defined benefit schemes. A consolidation of these amounts is disclosed in the note below.

	2013/14	2012/13
	£m	Restated £m
Present value of the defined benefit obligation at 1 April - as previously stated	(48)	(40)
Prior period adjustments	-	-
Present value of the defined benefit obligation at 1 April - restated	(48)	(40)
At start of period for new FTs	-	-
Transfers by absorption	(1)	-
Current service cost	(14)	(1)
Interest cost	(2)	(2)
Contribution by plan participants	(1)	-
Remeasurement of the net defined benefit (liability) / asset:		
Actuarial gain/(losses)	1	(6)
Benefits paid	1	1
Past service costs	-	-
Present value of the defined benefit obligation at 31 March	(64)	(48)
Plan assets at fair value at 1 April - as previously stated	40	34
Prior period adjustments	-	-
Plan assets at fair value at 1 April - restated	40	34
At start of period for new FTs	-	-
Transfers by absorption	1	-
Interest income	12	1
Remeasurement of the net defined benefit (liability) / asset:		
Expected return on plan assets	-	1
Actuarial gain/(losses)	-	3
Contributions by the employer	1	1
Contributions by the plan participants	1	1
Benefits paid	(1)	(1)
Plan assets at fair value at 31 March	54	40
Plan surplus/(deficit) at 31 March	(10)	(8)
Recorded in other liabilities	(11)	(9)
Recorded in non-current assets	1	1

Note 37.2 Pensions: Amounts recognised in the Statement of Comprehensive Income

	2013/14	2012/13 restated
	£m	£m
Current service cost	(14)	(1)
Interest expense/ income	10	(1)
Past service cost	-	-
Total (included in employee benefits)	(4)	(2)

Note 38 Prior Period Adjustments

Sector-wide changes in accounting policy

In 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 are now 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 8, prior year comparatives have been restated.

After the elimination of balances and transactions between foundation trusts and their consolidated NHS charitable funds, the net impact of restatement on the consolidated foundation trust accounts is as follows. The value of elimination adjustments is not material.

Net impact of NHS charitable funds consolidation restatement on:-

Consolidated statement of financial position:	31 March 2013	1 April 2012
	£m	£m
Gross assets	326	306
Gross liabilities	(5)	(6)
Total Equity	321	300

Consolidated statement of comprehensive income:	2012/13
	£m
Operating Income	27
Operating Expenditure	(30)
Surplus/(deficit) for the year	14

Reclassification of cost/depreciation as at 31 March 2013

A reclassification adjustment has been recorded between cost and accumulated depreciation / amortisation for PPE and intangible assets as at 31 March 2013 to align this disclosure with presentation in individual NHS foundation trust accounts. There is no net impact on net book value. The impact on cost and depreciation / amortisation as at 31 March 2013 is as follows.

	31 March 2013
	£m
PPE: reduction in cost/valuation and accumulated depreciation	661
Intangible assets: reduction in cost/valuation and accumulated amortisation	22

Other prior period adjustments applied by NHS foundation trusts

Other prior period adjustments in the 2013/14 consolidated NHS foundation trust accounts arise from NHS foundation trusts in their individual 2013/14 accounts correcting, restating or reclassifying 2012/13 or opening figures.

There are no prior period adjustments arising in individual NHS foundation trust accounts that are material to these accounts.

Note 39 Transfers and business combinations

Following adoption of the new HM Treasury policy in 2012/13, most business combinations within the public sector are accounted for using absorption accounting principles. Under this approach, balances are written out by the divesting organisation and recorded by the receiving organisation at their book values at the point in transfer. A gain or loss corresponding to the value of net assets is recognised within income and expenditure. More details are provided in accounting policy 1.1.

Under the provisions of the Health and Social Care Act 2012 the NHS underwent a reorganisation on 1 April 2013, principally affecting commissioning organisations. The Department of Health considered that this large number of transactions recognised with gains and losses in income and expenditure would have a distortive impact on NHS accounts in 2013/14 and so applied to HM Treasury for a divergence from the established absorption accounting principles. This was approved and so absorption transactions in 2013/14 where the divesting organisation ceased to exist on 1 April are accounted for under *modified* absorption accounting, whereby the gain or loss corresponding to the value of net assets is recognised within reserves rather than income and expenditure. More details are provided in accounting policy 1.1.

Transactions accounted for under normal absorption accounting: 2013/14

There were four transactions accounted for under normal absorption accounting principles by NHS foundation trusts in 2013/14. Two of these relate to the transfer of assets and liabilities from South London Healthcare NHS Trust to NHS foundation trusts on 1 October 2013 and these are detailed in the table below.

Receiving NHS foundation trust	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total net assets £m	PDC transferred £m
King's College Hospital NHS Foundation Trust	152	4	(7)	(84)	65	65
Oxleas NHS Foundation Trust	23	5	(1)	(3)	24	24
Totals	175	9	(8)	(87)	89	89

Guy's and St Thomas' NHS Foundation Trust was also a receiving body associated with the dissolution of South London Healthcare NHS Trust but only took on services and did not receive assets or liabilities.

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

Two further transfers, from Central Manchester University Hospitals NHS Foundation Trust to the National Institute for Health and Care Excellence, and to Northamptonshire Healthcare NHS Foundation Trust from Northamptonshire County Council, are immaterial to these accounts.

Transactions accounted for under normal absorption accounting: 2012/13

There were seven transactions accounted for under normal absorption accounting principles by NHS foundation trusts in 2012/13, plus one transfer between NHS foundation trusts.

Transactions where the NHS foundation trusts received balances greater than £10 million are listed individually below. More details for these and other transactions can be found in the underlying NHS foundation trusts' accounts.

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

Date	NHS foundation trust	Details of transaction	Assets transferred £m	Cash paid by receiving Trust £m	Liabilities transferred £m	Gain included within SOCI £m
1 April 2012	Central Manchester University Hospitals NHS Foundation Trust	Transfer of all services from Trafford Healthcare NHS Trust	84	-	(13)	71
1 July 2012	York Teaching Hospital NHS Foundation Trust	Transfer of all services from Scarborough and North East Yorkshire Healthcare NHS Trust	83	-	(14)	69
1 November 2012	Southern Health NHS Foundation Trust	Transfer of all services from Oxfordshire Learning Disabilities NHS Trust	19	-	(3)	16
1 February 2013	South Western Ambulance Service NHS Foundation Trust	Transfer of all services from Great Western Ambulance Service NHS Trust	55	-	(20)	35
Other transactions individually less than £10m			2	(2)	0	0
Totals			243	(2)	(50)	191

The transactions individually less than £10m relate to:

- Blackpool Teaching Hospitals NHS Foundation Trust: Transfer of Community Services from North Lancashire Teaching Hospitals PCT and Blackpool PCT;
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust: Transfer of Community Services from North Lincolnshire PCT; and
- The Dudley Group NHS Foundation Trust: Transfer of IT data centre and software from Dudley PCT

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.

Transactions accounted for under modified absorption accounting: 2013/14

There were 96 transactions whereby NHS foundation trusts received assets and/or liabilities from demising Primary Care Trusts and Strategic Health Authorities on 1 April 2013. Some NHS foundation trusts were involved in more than one transaction and so the number of NHS foundation trusts involved is fewer.

Transactions where the NHS foundation trusts received balances greater than £10 million are listed individually below. More details for these and other transactions can be found in the underlying NHS foundation trusts' accounts.

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

Receiving NHS foundation trust	Transferred from legacy body	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total net assets £m
Berkshire Healthcare NHS Foundation Trust	Berkshire West PCT	19	0	0	(15)	4
Burton Hospitals NHS Foundation Trust	South Staffordshire PCT	26	0	0	0	26
Camden and Islington NHS Foundation Trust	Camden PCT	37	0	0	0	37
Central and North West London NHS Foundation Trust	Camden PCT	15	0	(1)	0	14
Central and North West London NHS Foundation Trust	Hillingdon PCT	14	0	0	0	14
Cumbria Partnership NHS Foundation Trust	Cumbria Teaching PCT (including funds from NHS Cumbria Charitable Fund)	31	0	(1)	(6)	24
Dorset Healthcare University NHS Foundation Trust	Dorset PCT	71	0	(3)	0	68
Great Western Hospitals NHS Foundation Trust	Wiltshire PCT	40	0	(1)	(4)	35
Guy's & St Thomas' Hospital NHS Foundation Trust	Southwark PCT	12	0	0	0	12
Guy's & St Thomas' Hospital NHS Foundation Trust	Lambeth PCT	30	0	0	0	30
Humber NHS Foundation Trust	NHS East Riding of Yorkshire PCT	18	0	(1)	0	17
Oxford Health NHS Foundation Trust	Oxfordshire PCT	39	0	0	0	39
Oxleas NHS Foundation Trust	Bexley Care Trust	12	0	0	(1)	11
Somerset Partnership NHS Foundation Trust	Somerset PCT	78	0	0	0	78
South Warwickshire NHS Foundation Trust	Warwickshire PCT	19	0	0	0	19
South West Yorkshire Partnership NHS foundation trust	NHS Barnsley	37	0	(1)	0	36
Southern Health NHS Foundation Trust	Hampshire PCT	56	0	0	0	56
The Black Country Partnership NHS Foundation Trust	Wolverhampton City PCT	22	0	0	0	22
University Hospital of South Manchester NHS Foundation Trust	Manchester PCT	25	0	(1)	0	24
York Teaching Hospital NHS Foundation Trust	North Yorkshire and York PCT	31	2	0	0	33
Other transactions individually less than £10m		109	5	(4)	(4)	106
Totals		741	7	(13)	(30)	705

Note 40 Related Parties

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

During the period, NHS foundation trusts had a significant number of material transactions with the Department of Health and with other entities for which the Department of Health is regarded as the parent department, i.e. NHS England all strategic health authorities (in 2012/13), NHS trusts, clinical commissioning groups, primary care trusts (in 2012/13), NHS agencies and all special health authorities. In addition NHS foundation trusts had a significant number of material transactions with other Government bodies including central and local government bodies. NHS foundation trusts also had transactions with a number of charitable funds which are not consolidated into these accounts and certain members of the trustees are also members of the NHS foundation trust boards.

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

	2013/14		2012/13 restated	
	Income	Expenditure	Income	Expenditure
	£m	£m	£m	£m
Value of transactions with board members	-	12	1	20
Value of transactions with key staff members	-	-	-	-
Value of transactions with other related parties				
Department of Health and other NHS bodies	38,428	2,112	37,036	2,255
NHS charitable funds	67	5	63	5
Subsidiaries / Associates / Joint Ventures	33	52	28	38
Other	755	1,946	563	1,970
NHS Shared Business Services	395	21	14	12
Total value of transactions with related parties	39,678	4,148	37,705	4,300

	31 March 2014		31 March 2013 restated	
	Receivables	Payables	Receivables	Payables
	£m	£m	£m	£m
Value of balances (other than salary) with board members and key staff at 31 March	-	-	-	-
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March	-	-	6	-
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year at 31 March	-	-	(1)	-
Value of balances with other related parties at 31 March				
Department of Health and other NHS bodies	1,579	751	954	639
NHS charitable funds	17	1	13	-
Subsidiaries / Associates / Joint Ventures	4	2	5	3
Other	123	417	99	437
NHS Shared Business Services	70	15	6	1
Total balances with related parties at 31 March	1,793	1,186	1,082	1,080

Note 41 Events after the reporting period

The trust board and council of governors of Royal Free London NHS Foundation Trust have approved the acquisition of Barnet and Chase Farm Hospitals NHS Trust, which currently has annual income of £360 million. Subject to the approval of the Secretary of State, from 1 July 2014, Barnet Hospital and Chase Farm Hospital will be part of the Royal Free London NHS Foundation Trust.

On 1 April 2014 South Central Ambulance Service NHS Foundation Trust took on part of NHS Direct NHS Trust which ceased providing services on 31 March 2014. Net assets of £6 million transferred to South Central Ambulance Service NHS Foundation Trust under this transaction.

Note 42 Losses and special payments

The operating expenditure of NHS foundation trusts includes £23 million of losses and £15 million of special payments.

	2013/14		2012/13 restated	
	Number of cases	Value (£m)	Number of cases	Value (£m)
Cash losses (including theft and fraud)	20,960	1.5	25,032	3.7
Fruitless payments	220	0.2	237	0.8
Bad debts and claims abandoned	24,171	16.8	28,727	17.7
Damage to property (including stores losses)	5,148	4.6	6,134	4.1
Total losses	50,499	23.1	60,130	26.3
Compensation under legal obligation	400	2.1	515	4.1
Extra contractual payments to contractors	9	0.5	7	0.1
Ex gratia payments (including special severance payments)	5,719	12.0	5,486	14.0
Extra-statutory and extra-regulatory	8	0.1	14	0.1
Total special payments	6,136	14.7	6,022	18.3

HM Treasury requires additional disclosure of losses or special payments individually in excess of £0.3 million. In 2013/14 one individual loss was reported in excess of £0.3 million. Heart of England NHS Foundation Trust recorded a debt written off for £2.3 million. In 2012/13 six NHS foundation trusts reported seven individual losses over £0.3m including one fruitless payment, one incident of fraud, one stores loss and four debts write offs.

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 43 Third Party Assets

The balance of third party assets, including patients' money held within the NHS foundation trusts' bank accounts at 31 March 2014 was £28 million (31 March 2013, restated: £31 million). This has been excluded from the Statement of Financial Position as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

The 31 March 2013 balance has been restated as three NHS foundation trusts have identified errors in their reporting to Monitor in 2012/13 for this note which have now been corrected.



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