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NHS foundation trusts: consolidated accounts 2014/15



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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 This Act was largely repealed on 1 March 2007 and re-enacted on that date in a consolidating statute, the National Health Service Act 2006 (the 2006 Act).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 provisions in relation to Monitor.

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

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. Under the 2012 Act the Secretary of State can direct the content and form of the accounts and also direct Monitor to send the consolidated accounts to the Comptroller and Auditor General for audit. The Secretary of State issued a direction to this effect for 2013/14 which has continued to apply for the 2014/15 consolidated accounts. The Comptroller and Auditor General must report on the accounts and lay copies of the accounts and the report on them before Parliament as directed by the Secretary of State.

As far as Monitor's Accounting Officer, 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 153 individual NHS foundation trusts which were authorised by Monitor prior to 1 April 2015 and were in existence during the 2014/15 financial year. The dates of authorisation of these and periods of inclusion in the consolidated accounts are as follows:

Authorised on or prior to 1 April 2013 and consolidated for the year ended 31 March 2014 and the year ended 31 March 2015:

- 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 & 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
- 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 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
- 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 Midlands Ambulance Service 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 May 2013 and consolidated for the eleven month period ended 31 March 2014 and the year ended 31 March 2015:

- Kingston Hospital NHS Foundation Trust

Authorised 1 July 2013 and consolidated for the nine month period ended 31 March 2014 and the year ended 31 March 2015:

- Western Sussex Hospitals NHS Foundation Trust

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

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

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

- St George's University Hospitals NHS Foundation Trust

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

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

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

- Heatherwood and Wexham Park Hospitals NHS Foundation Trust

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

- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust

* From 1 November 2014, Mid Staffordshire NHS Foundation Trust's licence was revoked. The foundation trust continues to exist as a legal entity at the year end and so is consolidated for the entire year ended 31 March 2015, but the trust ceased to provide services on 1 November when its services transferred to other NHS bodies. More details can be found in note 35 to these consolidated accounts.

Review of NHS foundation trust financial performance 2014/15

The NHS foundation trust sector has delivered a net deficit before impairments and gains and losses on transfers by absorption for the year ended 31 March 2015 of £345 million (2013/14: £134 million net surplus) and held cash of £4.1 billion as at 31 March 2015 (31 March 2014: £4.3 billion). This includes the part year results of six new NHS foundation trusts authorised during 2014/15 and of two NHS foundation trusts which were dissolved prior to 31 March. The results of Mid Staffordshire NHS Foundation Trust which ceased to provide healthcare services on 1 November 2014 are also consolidated.

Where NHS charitable funds are locally deemed to be controlled by an NHS foundation trust, the financial results of the charities are consolidated within these accounts. Fifty five NHS foundation trusts consolidate charitable funds, contributing an aggregate surplus of £13 million and net assets of £365 million.

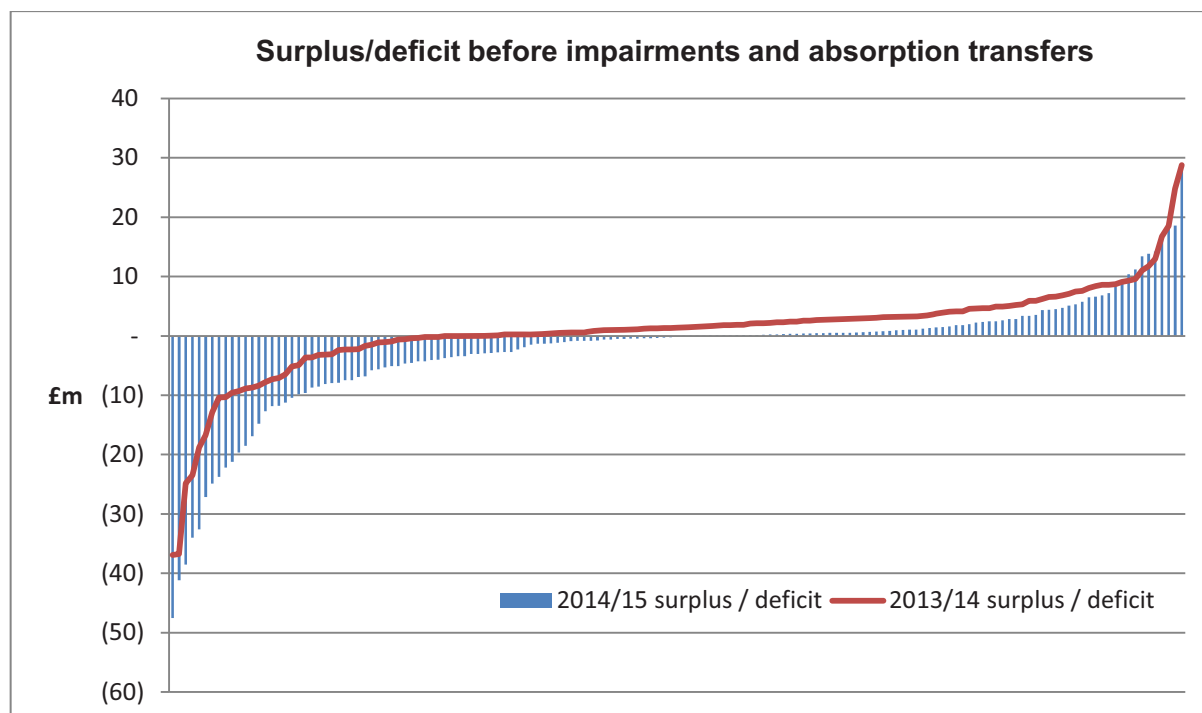
2014/15 has been an exceptionally challenging year for the NHS foundation trust sector. Growing demand and increasing cost pressures saw the sector's financial performance deteriorate and for the first time, the sector delivered an overall net deficit before impairments and absorption transfers.

The table below shows the profile of NHS foundation trusts that make up the sector at 31 March 2015. Trusts are classified by their principal services but they may also provide other services.

	Acute	Mental health	Ambulance	Specialist	Community	Charitable funds	Total
Number of foundation trusts	85	42	5	18	3	n/a	153
% of sector turnover	71.4%	19.0%	2.2%	7.0%	0.3%	0.1%	100.00%
EBITDA margin*	3.4%	4.7%	5.1%	5.7%	2.7%	n/a	3.8%
Surplus/(deficit) before impairments and transfers (£m)	(467)	50	2	56	1	13	(345)

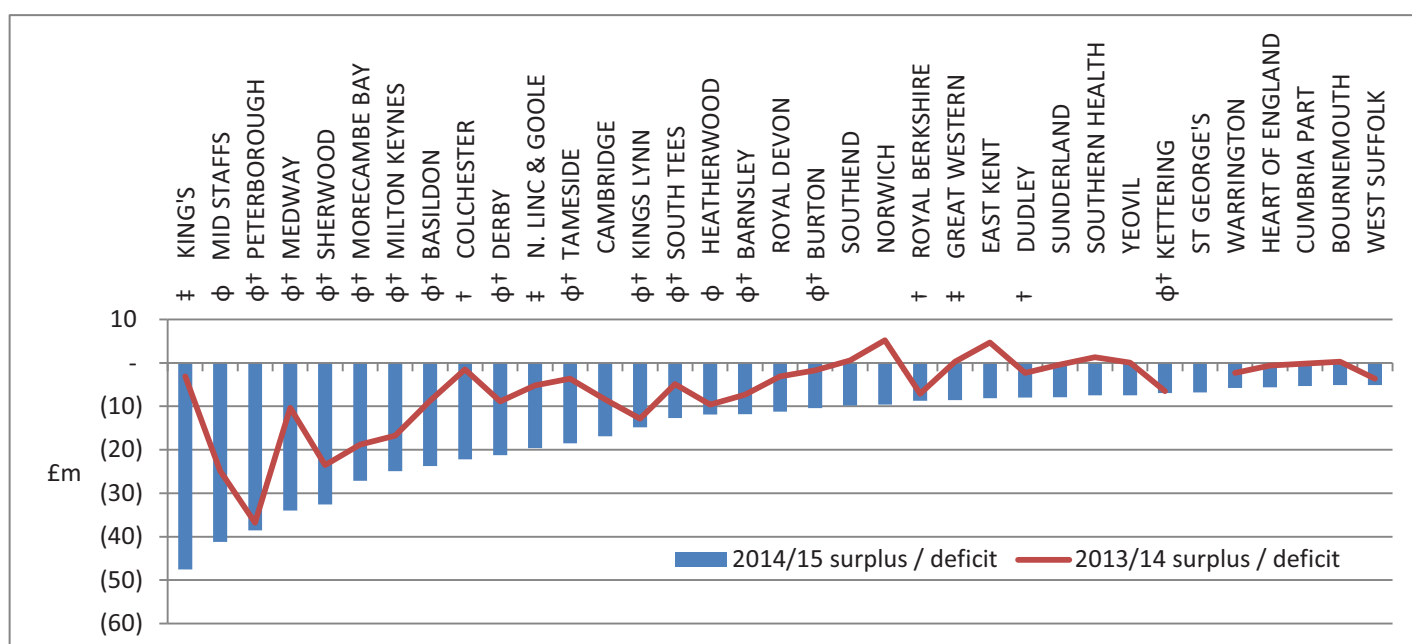
* EBITDA margins are as stated in Monitor's report on the *Performance of the foundation trust sector: year ended 31 March 2015*. Margins recalculated following completion of local audits do not differ significantly from those published.

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 showed that, excluding the consolidation of charitable funds, 76 (50%) (2013/14: 106 (72%)) NHS foundation trusts delivered a surplus or broke even and 77 trusts reported a deficit before impairments and transfers by absorption; almost double the 41 foundation trusts in deficit in 2013/14. The gross deficit of all foundation trusts in deficit in 2014/15 was £638 million (2013/14: £309 million). Of trusts reporting a surplus in 2013/14, forty (38%) have declined sufficiently to report a deficit in 2014/15, while only six (8%) have improved on a deficit reported in 2013/14 to report a surplus in 2014/15.



This deterioration can also be seen in the EBITDA margin (earnings before interest, tax, depreciation and amortisation excluding impairments) which has fallen significantly from 5.2% in 2013/14 to 3.8% in 2014/15. The latter is below the 5% benchmark used by Monitor as a measure of long term financial sustainability. The premium costs of unplanned activity and the consequent effects on the trusts' ability to deliver planned efficiency savings are contributing to this decline in financial performance.

Of the 77 trusts reporting deficits for 2014/15, 18 were subject to regulatory action as at 31 March 2015 in relation to finance or financial governance concerns (31 March 2014: 16). These 18 trusts make up 51% of the reported gross deficit value. The largest individual deficit was £47.5 million at King's College Hospital NHS Foundation Trust where progress in resolving long-standing problems at the Princess Royal University Hospital it took over in October 2013 has been very challenging. Other large deficits include £38.5 million at Peterborough and Stamford Hospitals NHS Foundation Trust and £32.6 million at Sherwood Forest Hospitals NHS Foundation Trust; both trusts continue to face financial challenge in relation to their significant private finance initiative (PFI) commitments. Medway NHS Foundation Trust reported a £34.0 million deficit while continuing to struggle with a number of clinical and governance issues. Services previously provided by Mid Staffordshire NHS Foundation Trust transferred to neighbouring NHS trusts on 1 November 2014. The following graph details the trusts reporting a deficit before impairments and transfers in excess of £5 million.



† Foundation trusts subject to regulatory action in relation to finance or financial governance concerns at 31 March 2015.

φ Foundation trusts in receipt of interim support funding from the Department of Health during 2014/15.

‡ Foundation trusts subsequently subject to regulatory action in relation to finance or financial governance concerns since 31 March 2015.

The Department of Health (DH) provides interim financial support to NHS foundation trusts in financial difficulty to support the continued delivery of services on a finite basis. This interim support is normally intended to be a pre-cursor to longer term planned investment to support the delivery of a sustainable recovery plan. Sixteen trusts reporting a deficit in 2014/15 received cash support from the DH (these are identified with φ in the above graph). Since 31 March 2015 five further trusts have been subject to enforcement action following deterioration in their financial position. The total interim support received to maintain the delivery of patient care was £296 million with an additional £52 million to support necessary capital investment. In addition, a number of foundation trusts received planned term support to deliver long term solutions and support transactions. This includes Royal Free London NHS Foundation following acquisition of Barnet and Chase Farm Hospitals NHS Trust and funding to support transformation of services following the acquisitions of Heatherwood and Wexham Park Hospitals NHS Foundation Trust and the Royal National Hospital for Rheumatic Diseases NHS Foundation Trust by other foundation trusts.

The financial statements of 21 trusts in deficit also received audit reports containing an emphasis of matter paragraph in relation to going concern or financial performance (2013/14: 13). These trusts are listed in note 1.23 to these accounts with Monitor's going concern assessment for these consolidated 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

Monitor uses its *Risk Assessment Framework* (RAF) to assess 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. It measures medium to long term solvency risk, as opposed to current operating deficits, which may be a leading indicator of future solvency problems. In June 2015 Monitor launched a consultation on proposed changes to the RAF which include the re-introduction of metrics for current financial performance and the accuracy of financial planning.

Monitor's risk ratings are calculated using foundation trust finance data excluding charitable funds. The risk profile for the sector as at 31 March 2015 is shown in the table below, where 4 represents the lowest risk and 1 the highest level of risk. A low CoSRR does not necessarily indicate a breach of the trust's provider licence.

		At 31 March 2015		At 31 March 2014	
		Number of trusts	% of sector	Number of trusts	% of sector
Continuity of service risk rating	4	72	48%	92	63%
	3	42	28%	35	23%
	2	17	11%	10	7%
	1	19	13%	10	7%
Total		150*	100%	147	100%

* Heatherwood and Wexham Park Hospitals NHS Foundation Trust, Royal National Hospital for Rheumatic Diseases NHS Foundation Trust and Mid Staffordshire NHS Foundation were no longer licensed to provide services at 31 March 2015 and are therefore not assigned risk ratings under the RAF.

Over the 12 months to 31 March 2015, the number of trusts rated 1 or 2 almost doubled (from 20 to 36). 33 of these 36 trusts are acute providers. Despite the financial challenges within the sector, the majority of foundation trusts have sufficient cash reserves to ensure continuity of services therefore not all trusts reporting a deficit receive a low CoSRR. Forward plans for 2015/16 submitted by foundation trusts indicate an increased risk to financial sustainability and, unless substantial efficiency gains are delivered, financial performance is expected to deteriorate.

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 investigate whether or not regulatory action should be taken. As at 31 March 2015, 29 NHS foundation trusts were subject to enforcement action by Monitor (31 March 2014: 27). Further information on governance risk ratings and enforcement action taken by Monitor in 2014/15 is detailed in the consolidated annual governance statement.

In April 2013, Monitor appointed a trust special administrator (TSA) to Mid Staffordshire NHS Foundation Trust, after a contingency planning team concluded that the trust was clinically and financially unsustainable in its form at that time. Services previously provided by Mid Staffordshire NHS Foundation Trust transferred to neighbouring NHS trusts on 1 November

2014 allowing for future dissolution of the foundation trust and a sustainable solution for patients in Staffordshire. Services at County Hospital (formerly Stafford Hospital) and Cannock Chase Hospital will continue to be provided by University Hospitals of North Midlands NHS Trust and The Royal Wolverhampton Hospitals NHS Trust respectively. A shell legal entity, supported by the TSA, continues in place to handle outstanding criminal legal cases.

Heatherwood and Wexham Park Hospitals NHS Foundation Trust was found in breach of its terms of authorisation in July 2009 in relation to significant financial challenges. In May 2014 it was placed into the special measures regime to address a number of quality governance and clinical failings at the trust. Following the success of a buddying arrangement with the neighbouring Frimley Park Hospitals NHS Foundation Trust, Monitor granted approval to Frimley Park to acquire Heatherwood and Wexham Park so that patients of the latter could benefit permanently from the strong leadership of Frimley Park. The acquisition was effective on 1 October 2014 and the enlarged organisation is now called Frimley Health NHS Foundation Trust.

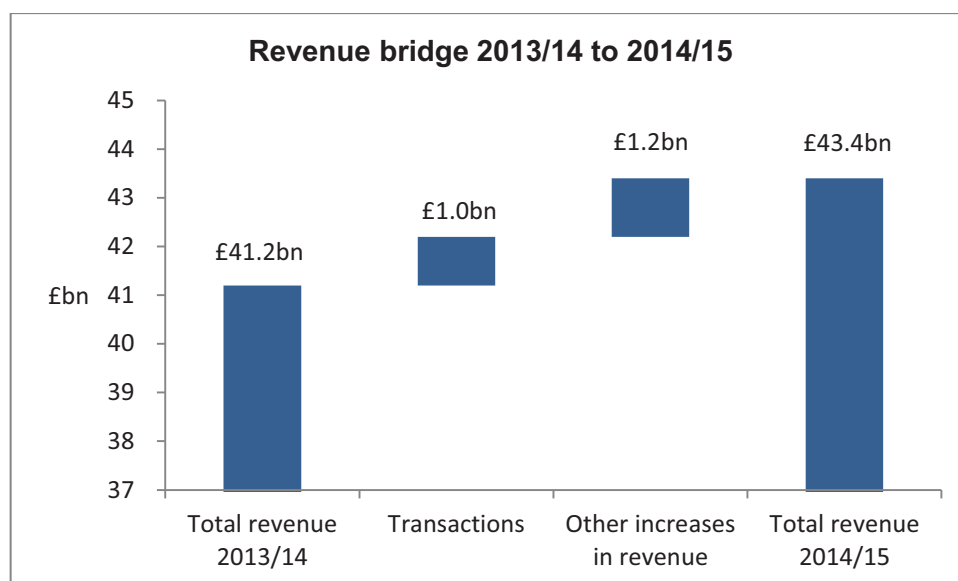
Royal National Hospital for Rheumatic Diseases NHS Foundation Trust which provides specialist rehabilitation and rheumatology care was acquired by Royal United Hospitals Bath NHS Foundation Trust on 1 February 2015. The transaction followed a long history of financial sustainability problems at the Royal National Hospital and should protect future provision of these services to patients across England.

Details of all these transactions can be found in note 35 to these accounts.

Operating performance

Operating income

In the year to 31 March 2015, 153 NHS foundation trusts generated total operating revenues before reversals of impairments of £43.4 billion, an increase of £2.2 billion (5.3%). Approximately 20% (£0.4 billion) of the increase was driven by the authorisation of six new foundation trusts during the year. A further 6% (£0.1 billion) is the full year impact of trusts authorised during 2013/14. 23% (£0.5 billion) resulted from the transfer of services to NHS foundation trusts from other NHS bodies in 2014/15 and the full year effect of services which transferred in 2013/14. Excluding newly authorised foundation trusts and trusts that ceased to provide services during the year, 84% of foundation trusts experienced growth in revenues during 2014/15. A significant factor in this growth was continued rising demand for emergency and other non-elective care. As this additional activity was only funded at 30% of standard national tariff rates, it places further cost pressures on the already financially challenged foundation trust sector. Other increases in clinical revenue include reimbursements for high cost drugs and additional funding for specialist care.



EBITDA

In aggregate, EBITDA as a proportion of revenue, which is a proxy for underlying operating efficiency, decreased from 5.2% in 2013/14 to 3.8% in 2014/15. The deterioration in margin has affected all categories of trust.

EBITDA margins *	2014/15	2013/14
Acute	3.4%	4.9%
Mental health	4.7%	5.3%
Ambulance	5.1%	6.3%
Specialist	5.7%	7.4%
Community	2.7%	n/a

* Excludes the consolidation of charitable funds to represent the underlying operational efficiency of each sector. Prior to 2014/15 there were no community foundation trusts.

Small and medium acute NHS foundation trusts have suffered the largest declines which may reflect their reduced ability to absorb cost pressures. The performance of community trusts reflects part year performance only and may not be representative of the full year performance for these trusts.

Almost two-thirds of foundation trusts reported an EBITDA below the 5% benchmark used by Monitor to assess long term financial sustainability. Sixteen trusts recorded a negative EBITDA margin for 2014/15. With the exceptions of Mid Staffordshire NHS Foundation Trust and the Royal National Hospital for Rheumatic Diseases NHS Foundation Trust, for which long term sustainability solutions have been implemented in year, all negative margins were recorded by acute trusts and all of these are currently subject to enforcement action by Monitor.

More than 60% of the overall increase in operating expenditure before impairments resulted from additional pay costs. While an increase in pay costs was planned by the sector, planned reductions in agency staff costs have not been achieved. Difficulties in recruiting to permanent roles coupled with unplanned increases in demand has increased reliance on

non-permanent staff: a £452 million (32%) increase in agency staff costs were incurred at a premium.

The second largest area of cost pressure for NHS foundation trusts was drugs and other clinical supplies which have increased in cost by £661 million (10.3%). This exceeds the proportionate increases in revenue and activity and may therefore be a future focus for cost reduction.

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

The total deficit before impairments and gains/losses from transfers by absorption was £345 million, which for the first time gave the NHS foundation trust sector a negative surplus margin of 0.8% (2013/14: positive 0.3%). Acute trusts continue to be the only sector to record a net deficit in aggregate and this has grown by £357 million (314%) since 2013/14. Mental health, ambulance and specialist trusts have all continued to record overall sector surpluses but with declining margins of 0.6%, 0.2% and 1.8% respectively (2013/14: 1.4%, 1.0% and 3.8%). Community trusts are reported within the foundation trust sector for the first time in 2014/15 and have recorded a surplus margin of 0.5%.

Impact of impairments

Impairments to the carrying value of assets are charged to operating surplus except where previous revaluation surpluses remain, and a reduction is recognised in the revaluation reserve to the extent of the remaining surplus. Where the impairments are the result of a permanent loss, such as fire damage, they are always charged to expenditure. In 2014/15, net impairments charged to income and expenditure were £245 million (2013/14: £369 million). A further £276 million of net impairments were charged to reserves (2013/14: £215 million), reducing previously recognised revaluation surpluses. There were 89 NHS foundation trusts that recorded a net impairment within surplus/deficit in 2014/15 compared to 98 in the previous year.

Of the £245 million of net impairments charged to income and expenditure, only £4 million arose from changes in market price. These impairments reflect market conditions at the time of valuation. Market price net impairments were £228 million in 2013/14. The reduction in net impairments is largely attributable to a greater amount of impairment reversals in 2014/15: that is, the conditions that led to an impairment previously being recognised no longer apply. This is driven by increases in the cost of building replacement assets or in land and buildings market prices in some regions. Further recognised net impairments include the impairment of Papworth Hospital NHS Foundation Trust's existing hospital site following the finalisation of plans to build a new Papworth Hospital on the Cambridge Biomedical Campus. Moorfields Eye Hospital NHS Foundation Trust recognised an impairment of land purchased in the year, the value of which is expected to be recovered through future redevelopment of the site. Further details of impairments are provided in note 8 to the accounts.

Surplus for the year before other comprehensive income

In 2014/15, NHS foundation trusts recorded a total deficit after impairments and transfers by absorption of £507 million (2013/14: 146 million). 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. The value of any net assets transferring is

recognised within surplus for the year as a gain or loss on transfer. In 2014/15 six foundation trusts recognised transfers with bodies outside of the foundation trust sector, including Royal Free NHS Foundation Trust's acquisition of Barnet and Chase Farm Hospitals NHS Trust and the transfer of services out of Mid Staffordshire NHS Foundation Trust to the Royal Wolverhampton Hospitals NHS Trust and University Hospitals of North Midlands NHS Trust. Additionally, two NHS foundation trusts transferred all services to other foundation trusts. These transactions had no overall impact on the result of the sector. Full details of all transfers can be found in note 35 to the accounts.

Total comprehensive income

Total comprehensive income was £112 million (2013/14: £983 million). The large gain in 2013/14 was mainly driven by £705 million of gains arising on modified absorption transfers. These gains related to the transfer of assets from primary care trusts (PCTs) following the NHS reorganisation on 1 April 2013 which, in accordance with an HM Treasury approved adaptation, were recognised directly in reserves. In 2014/15 the main driver of comprehensive income was unrealised revaluation gains of £898 million (2013/14: £647 million).

Net finance costs

Net finance costs increased by £78 million in the year, from £845 million in 2013/14 to £923 million in 2014/15. This increase includes additional public dividend capital (PDC) dividend payments of £49 million. PDC dividend is calculated based on average net relevant assets so this increase results directly from an increase in the value of the asset base for the NHS foundation trust sector.

Main finance costs in relation to PFI schemes have remained fairly stable year on year, with a £10 million increase in contingent finance costs arising from inflation. Interest paid on loans from the DH and the Independent Trust Financing Facility (ITFF) increased by £11 million as a result of new loans issued in the year.

Cash balances and borrowings

At 31 March 2015, NHS foundation trusts held cash and cash equivalents of £4.1 billion (31 March 2014: £4.3 billion), a decrease of £0.2 billion despite the authorisation of six new NHS foundation trusts in year. This continues the trend seen in 2013/14 where for the first time, the NHS foundation trust sector as a whole recognised a net outflow of cash resources. The decrease is primarily a result of a declining operating surplus. This cash balance is equivalent to 4.8 weeks' operating costs in a sector with annual revenue of £43 billion (2013/14: 5.2 weeks).

The net adverse movement in working capital in the year was £83 million, an improvement on the £462 million adverse movement seen in 2013/14. Of the total cash balance at the year end, £3.2 billion was held with the Government Banking Service, £0.6 billion with the National Loans Fund and £0.2 billion elsewhere. Of the total cash figure, £0.1 billion was held by NHS charitable funds and is not available to support the operating costs within NHS foundation trusts.

The number of receivables days has increased only slightly from the previous year at 21.4 days (2013/14: 20.1 days) and is broadly consistent with a similar increase in payables days to 35.8 (2013/14: 34.3 days). Levels of receivables due from commissioners remain high compared to those seen with PCTs prior to the NHS reorganisation in April 2013, particularly as proportion of income. The additional time before income is received from commissioners places further pressure on NHS foundation trusts in managing their liquidity.

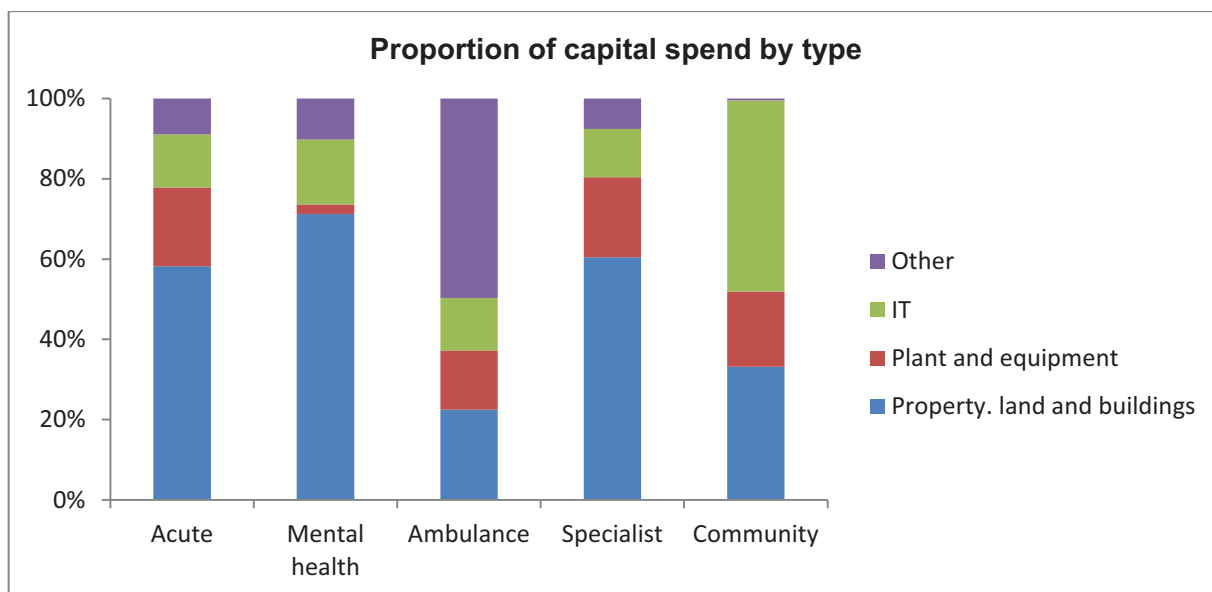
Total long term and working capital borrowing at 31 March 2015 was £6.9 billion (31 March 2014: £6.1 billion). Of the £6.9 billion, £4.3 billion relates to outstanding PFI liabilities (31 March 2014: £4.4 billion), £2.4 billion is loan funding (31 March 2014: £1.7 billion) and £0.1 billion relates to finance leases (31 March 2014: £0.1 billion).

The overall increase in borrowings is primarily driven by new loans from the DH and the ITFF. In March 2015 the DH introduced interim support loan funding products, including a revolving working capital facility and capital and revenue term loans. These products will become the default form of interim support funding for NHS foundation trusts, replacing interim support PDC. Eleven foundation trusts in receipt of interim support in 2014/15 received loans from the DH: £34 million of working capital facilities, £133 million of revenue term loans and £11 million of capital term loans. A further 51 NHS foundation trusts received £576 million of loan funding from the DH and the ITFF to support capital projects or working capital.

Capital expenditure

Total purchases of property, plant and equipment (PPE) and intangible assets were £2.02 billion (2013/14: 2.03 billion), a small decrease despite the authorisation of six new foundation trusts. This is in contrast with previous years when the NHS foundation trust sector as a whole consistently increased capital expenditure year on year. This may indicate that financial pressures are impacting on foundation trusts' ability to achieve capital investment plans. However, while acute trusts and mental health trusts, which accounted for 84% of capital spend, reduced capital expenditure, ambulance trusts and specialist trusts increased their capital investment in year.

A number of foundation trusts saw the completion of major capital developments in the year including University Hospitals Bristol NHS Foundation Trust's £143 million redevelopment programme including the centralisation of paediatric care by extending the Bristol Royal Hospital for Children and the redevelopment and expansion of the Bristol Royal Infirmary. Lancashire Care NHS Foundation Trust opened its new mental health inpatient facility, The Harbour, in Blackpool and a new specialist emergency care hospital at Northumbria Healthcare NHS Foundation Trust was completed in March and opened to patients in June 2015.



NHS foundation trusts continue to invest in their estates at levels significantly in excess of depreciation charges in year. On average capital expenditure was 163% of the depreciation charged (2013/14: 170%). Despite increasing challenges to delivering surpluses, foundation trusts continue to invest in improving care facilities by utilising existing cash reserves and cash support from the DH; however, this continued level of investment may not be sustainable in the long term.

Events after the reporting period

As at 31 March 2015 there were 151 NHS foundation trusts, including Mid Staffordshire NHS Foundation Trust. On 1 May 2015, Monitor authorised Bradford District Care NHS Foundation Trust.

Looking forward

NHS foundation trusts experienced their most challenging year to date in 2014/15, delivering a sector net deficit for the first time. This challenge is set to continue in 2015/16 requiring trusts to simultaneously improve quality, meet access targets and drive up productivity. With plans for 2015/16 forecasting further worsening of performance for the sector, it is clear that there can be no let up in the scale and pace of change required in provider organisations.

Foundation trust boards will need to focus increasingly on the efficiency with which resources are utilised at their trusts, ensuring value for money on areas of discretionary spend such as management consultants and agency staff. A sharper focus on robust financial planning will permit boards to identify and respond to risks before they manifest as more significant solvency problems.

NHS foundation trusts are finding that delivering improvements in efficiency while maintaining quality is becoming increasingly difficult as each year passes. To support delivery of the *Five Year Forward View*, foundation trusts will receive more support and encouragement from Monitor as well as challenge and direction where trusts are in difficulty. There is evidence of significant variation in practice across similar organisations and scope for further innovation. Providing further opportunities for the most highly performing

organisations to share their best practices with other providers on a larger scale will be key in pursuing improvements.

Dr David Bennett

Chief Executive

2 July 2015

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:

- 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
- 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 2012 Act, Monitor has prepared a set of consolidated accounts complying with directions given by the Secretary of State, on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with IFRS, as amended for NHS foundation trusts by the FReM and the FT ARM. The consolidated accounts also comply with 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
- disclosure any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

Annual Governance Statement

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

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

Scope of responsibility

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

Purpose of the system of internal control

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 *Foundation Trust Annual Reporting Manual* (FT ARM). This has been approved by the Secretary of State;
- 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;
- appointing the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consideration of their findings;
- facilitating the Technical Issues Forum, to which senior representatives from the National Audit Office and 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; 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 AGS for the year ended 31 March 2015. 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 AGS explains how the accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk cannot be effectively controlled.

Overview of internal control systems within NHS foundation trusts

Risk environment: comments by NHS foundation trusts

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

The most prevalent general themes have been the achievement of key healthcare targets and quality governance, with 38% and 33% of the sector respectively disclosing an additional focus on this aspect of their internal control during the year. NHS foundation trusts have also disclosed a focus on improving risk identification and management, information governance arrangements, engaging and training staff, 'ward to board' complaint escalation, the appointment of leaders into senior roles and financial governance.

Governance

On 1 April 2013, NHS foundation trusts became subject to a new licensing regime which replaced NHS foundation trusts' terms of authorisation. From 1 October 2013 Monitor has overseen NHS foundation trusts' compliance with the governance and continuity of services requirements of their provider licence through application of the *Risk Assessment Framework* (RAF).

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

Monitor publishes risk ratings on a quarterly basis. During 2014/15 the quarterly governance risk ratings assigned to NHS foundation trusts were as follows:

Governance ratings 2014/15				
	Q4 ¹	Q3 ²	Q2	Q1
Green	95	95	100	108
Under review	22	24	20	11
Red	33	29	27	28
Total	150	148	147	147

Continuity of services

Under the RAF the risk to financial sustainability and continued provision of essential services is assessed by assigning NHS foundation 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 2014/15, Monitor assigned CoSRRs to NHS foundation trusts as follows:

CoSRRs 2014/15				
	Q4	Q3	Q2	Q1
4	72	73	69	71
3	42	40	44	45
2	17	19	15	15
1	19	16	19	16
Total	150	148	147	147

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

NHS foundation trusts in breach of licence conditions:

During 2014/15 Monitor decided to take enforcement action against nine NHS foundation trusts and continued to monitor the progress of a further 27 NHS

¹ During Q4:

- Royal National Hospital for Rheumatic Diseases NHS FT ceased to provide services
- Kent Community Health NHS FT, Nottinghamshire Healthcare NHS FT and St George's University Hospitals NHS FT achieved NHS foundation trust status.

Q4 governance ratings presented here are the provisional position as at 2 July 2015.

² During Q3:

- Heatherwood and Wexham Park Hospitals NHS FT and Mid Staffordshire NHS FT ceased to provide services
- Bridgewater Community Healthcare NHS FT, Derbyshire Community Health Services NHS FT and Royal United Hospitals Bath NHS FT achieved NHS foundation trust status.

foundation trusts subject to existing enforcement action. In addition there were investigations of potential licence breaches that did not result in Monitor taking any enforcement action.

Five NHS foundation trusts were wholly removed from enforcement action during 2014/15. This number includes the three NHS foundation trusts that ceased to provide services during the year.

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 2012 Act. Monitor may apply a range of enforcement powers including accepting enforcement undertakings, imposing discretionary requirements and imposing additional licence conditions to secure compliance and ensure breach does not recur. More information on Monitor's formal powers of enforcement and general approach to deciding on regulatory action can be found in the document 'Enforcement guidance' available on 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 given support to improve levels of patient care including partnering with a high performing NHS foundation trust and appointing an improvement director.

The 2012 Act also extends the provisions for trust special administration to NHS foundation trusts. Administration 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. The categorisation into finance and/or governance below reflects the enforcement action taken during the year rather than the year end position for the trust.

In addition to the 'true and fair' audit opinion on the accounts, external auditors of NHS foundation trusts are required to confirm that the audit has been completed in accordance with the requirements of the 2006 Act, which includes concluding whether the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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 reports are included in the annual report and accounts of the individual NHS foundation trusts, and are not replicated here.

38 NHS foundation trusts received a qualified audit certificate from their external auditor for the year ended 31 March 2015, where the auditor was 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 (RNHRD): 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 Monitor accepted enforcement undertakings from the trust relating to its financial position. The trust remained subject to this enforcement action until 1 February 2015, at which point it was acquired by Royal United Hospitals Bath NHS Foundation Trust (RUH Bath).

In its annual governance statement on behalf of the trust, covering the first ten months of 2014/15, RUH Bath identifies that no significant control issues have been identified. Through its acquisition by RUH Bath the trust declares that it has addressed RNHRD's underlying financial deficit and the previous risks to its financial position.

The external auditor has qualified the trust's audit certificate for the 10 months up to 31 January 2015 as the auditor is not satisfied that the trust made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor and the ultimate acquisition of the trust by RUH Bath.

- The Dudley Group NHS Foundation Trust: In February 2015 Monitor accepted enforcement undertakings from the trust relating to concerns over its financial position and ongoing financial sustainability. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges concerns relating to its financial performance and long term financial sustainability, and reports that it has begun instigating a turnaround programme to ensure financial sustainability going forwards. The trust declares that it is planning for a reduced deficit in 2015/16.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

Governance

- 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. In July 2014 the trust was found by Monitor to have complied with its enforcement undertakings. At the 2014/15 year end the trust was not subject to any enforcement action.

In its annual governance statement the trust discloses that it faced difficulties in its efforts to meet the accident & emergency (A&E) target in particular and is now implementing a series of internal improvements to meet those challenges. These include changes to assessment processes in A&E, the introduction of a short stay ward in Medicine and the introduction of ambulatory care to improve care for emergency patients.

The entire local health economy (LHE) has been subject to a regional tripartite escalation process and is working together to meet the activity and capacity challenge. Performance against the A&E target has improved considerably during the first quarter of 2015/16 and NHS England, the NHS Trust Development Authority (NHS TDA) and Monitor are considering de-escalating the LHE as a result.

- Calderstones Partnership NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to governance issues, requiring the trust to put in place an action plan to address governance concerns (including quality governance concerns) and to implement an action plan for the safeguarding case conference (SCC). At the 2014/15 year end the trust remained subject to this enforcement action.

In April 2015 the trust was found by Monitor to have complied with the

enforcement undertakings that related to implementation of the SCC action plan. On the same date Monitor accepted additional enforcement undertakings from the trust relating to quality and other governance issues, primarily in response to a quality report by the CQC in December 2014.

In its annual governance statement the trust acknowledges the CQC's concerns about quality and quality governance, in particular around cleanliness, restrictive practices, Mental Health Act administration and staffing levels. The trust states that it has made significant progress in addressing these concerns and is preparing for a CQC re-inspection in October 2015. The trust declares that it will also review its governance and reporting structure in 2015/16 to ensure it remains effective and efficient.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Christie NHS Foundation Trust: In March 2014 Monitor imposed discretionary requirements on the trust for governance breaches relating to the effectiveness of its board. In November 2014 the trust was found by Monitor to have complied with its enforcement undertakings. At the 2014/15 year end the trust was not subject to any enforcement action.

In its annual governance statement the trust discloses that it has addressed the concerns around board effectiveness identified by Monitor in 2013/14. The trust reports that in 2014/15 it commissioned an external review of leadership and governance which confirmed that there were no longer any serious governance failings or failings of culture at the trust. Monitor and the CQC also conducted a joint review at the trust and found no material weaknesses in the trust's governance.

- Cumbria Partnership NHS Foundation Trust: In January 2014 Monitor accepted enforcement undertakings from the trust relating to quality governance issues and a CQC warning notice in November 2013. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust declares that it has significantly refocused its attention and resources on strengthening quality governance and clinical risk management. It advises that this has been achieved by redesigning clinical governance and operational structures, and building leadership capacity to enable a clearer line of sight to quality and safety risks. The trust indicates that it intends to continue its progress into 2015/16, and has identified as its top priorities risk identification and management, the

improvement of data quality, and the training of staff to drive quality and service improvements.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- 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 it to ensure its board, committees and council of governors were operating effectively, and subsequently requiring it to appoint an interim chair. In June 2014, following improvements at the trust, Monitor removed the trust's additional licence condition and issued a certificate of compliance in relation to the trust's enforcement undertakings. At the 2014/15 year end the trust was not subject to any enforcement action.

In its annual governance statement the trust acknowledges the concerns around governance that had existed at the start of the year, and declares that it has achieved significant progress against its recovery plan for developing risk management, assurance processes and governance arrangements. The trust discloses that it has also implemented action plans to address quality concerns, including issues with staffing. Overall the trust highlights significant improvements, pointing in particular to changes in board membership and an improvement in governance systems.

- East Kent Hospitals University NHS Foundation Trust: In September 2014 Monitor accepted enforcement undertakings from the trust relating to governance concerns (identified in a CQC report dated August 2014) including the trust's failure to comply with a healthcare target. Monitor also imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance concerns. At the 2014/15 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 acknowledges concerns raised by the CQC including poor staff survey results and a high number of 'whistle-blowing' alerts from staff. The trust explains that it has made good progress in addressing these concerns, with improvements focusing on senior leadership, board processes and systems, organisational effectiveness, and a cultural change programme promoting trust, staff engagement and staff

development. The trust discloses a lack of control over stock management and finances in 2014/15, but it states that the trust is taking action to address these concerns. The trust declares that it has also undertaken further work on its risk management processes, including a review of current systems and its board assurance framework.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Heart of England NHS Foundation Trust: In December 2013 Monitor accepted enforcement undertakings from the trust relating to governance concerns including the trust's failure to comply with a healthcare target. In October 2014 Monitor accepted further enforcement undertakings from the trust, relating to breaches of additional access and outcome performance targets as well as broader governance issues. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance concerns. In January 2015 Monitor accepted additional enforcement undertakings from the trust in relation to governance concerns including mortality and management capacity issues, and found it in breach of its additional licence condition. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges concerns around quality highlighted by the CQC based on a visit in December 2014, with improvement required in the areas of safety, responsiveness and leadership, and also that it is not meeting all healthcare targets. The trust declares that an integrated quality improvement plan has been developed and is being implemented in response to the various governance concerns highlighted. It states that action is also being taken by the trust to improve its risk management systems and to ensure that its board assurance framework is better 'owned' at board level and more closely aligned to the corporate strategy.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- **Norfolk and Suffolk NHS Foundation Trust:** In February 2015 Monitor accepted enforcement undertakings from the trust following a CQC quality report and independent governance review which both identified a number of governance concerns. At the same time Monitor imposed an additional licence condition on the trust, requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance issues. At the 2014/15 year end the trust remained subject to this enforcement action and in special measures for failings in patient care and governance.

In June 2015 Monitor accepted additional enforcement undertakings from the trust in relation to its financial position and ongoing financial sustainability, which require it to put together a credible financial recovery plan and track the effectiveness of its financial management activity.

In its annual governance statement the trust discloses significant control issues relating to the quality of care provided in 2014/15, as well as a lack of sufficiently robust governance systems, structures and processes at board, management and operational levels. It also reports concerns over its financial deficit. The trust declares that it is implementing a quality improvement plan to address these concerns, while it is also benefiting from a buddying arrangement with a fellow trust.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- **Southend University Hospital NHS Foundation Trust:** 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. In June 2014 Monitor imposed discretionary requirements on the trust relating to governance concerns including further failures to comply with healthcare targets. At the same time Monitor imposed an additional licence condition on the trust requiring it to have an effectively functioning board to enable it to address its governance issues. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges the governance concerns identified above and reports that it has developed a programme of improvements to address them. It concedes that meeting health targets

remains a particular challenge, but states that demand and capacity work is under way to meet this challenge. The trust discloses the outcome of a CQC inspection in August 2014 which found concerns over cleanliness and infection control, medicines management, staffing and the assessment and monitoring of quality. The trust also identifies increasing financial pressures as a significant concern amid legacy issues including an aged estate, staffing issues, financial limitations and difficulties arising from the LHE. In response to these concerns, the trust sets out a series of plans for 2015/16 including the employment of an experienced transformation director, development of a bottom-up budget and a plan for more clinically-led decision-making.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Southern Health NHS Foundation Trust: In April 2014 Monitor accepted enforcement undertakings from the trust relating to a range of governance issues identified in CQC warning notices and a series of external reviews commissioned by the trust itself. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges the internal control issues identified in 2014/15 and outlines the improvement plans it is putting in place to respond to them. A work programme has been developed to address data quality and board governance concerns, in particular the trust's incident reporting culture. A programme has been established to provide a framework for the delivery of quality improvement priorities, and the trust declares it has achieved significant progress across several work streams including governance, patient safety, reporting and learning, and peer review and CQC compliance. The trust discloses that it has failed to follow its own processes for the approval of non-contractual payments, which resulted in a material payment being made without the correct authorisation of HM Treasury. It advises that additional control measures have been put in place to ensure this situation cannot arise again in the future.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor and the unauthorised payment made during the year.

- 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 the A&E target. The trust was issued with its provider licence in April 2013 and Monitor accepted enforcement undertakings from the trust for the same issues. In August 2014 Monitor imposed discretionary requirements on the trust in response to the trust's failure to fully deliver the commitments made in the April 2013 enforcement undertakings. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance issues. At the 2014/15 year end the trust remained subject to this enforcement action.

The entire LHE has been subject to a regional escalation process between NHS England, the NHS TDA and Monitor ('the tripartite'), and is now implementing a series of improvements to meet these challenges. These include changes to assessment processes in A&E and much improved discharge arrangements across the LHE. Performance against the A&E target has improved considerably in the first quarter of 2015/16 and the tripartite has de-escalated the LHE as a result.

In June 2015 the trust was found by Monitor to have complied with the terms of its discretionary requirements relating to concerns around board effectiveness and governance.

In its annual governance statement the trust discloses governance concerns relating to the board and its meeting of healthcare targets. The trust reports that much has been done in 2014/15 to address these concerns, for instance the implementation of initiatives to manage patient flows and achieve the four hour A&E standard, although it acknowledges that delivery of healthcare targets remains at risk in 2015/16. The trust also discloses particular weaknesses around data management, including those relating to referral to treatment (RTT) times, and advises that actions to address these have been initiated.

Finance and governance

- **Barnsley Hospital NHS Foundation Trust:** In June 2014 Monitor accepted enforcement undertakings from the trust relating to concerns over the trust's deteriorating financial position and to governance concerns including the trust's failure to comply with a healthcare target. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance issues. In January 2015 the trust was found by Monitor to have complied with its enforcement undertakings related to

governance issues. At the 2014/15 year end the trust remained subject to the terms of the enforcement undertakings related to financial issues.

In its annual governance statement the trust declares that significant work has been undertaken to address breaches against the A&E target, and that this has resulted in the relevant enforcement undertakings being lifted. With regard to its financial concerns, the trust states that it has implemented improvements to its assurance, escalation and performance frameworks. It declares that a new five year plan has been signed off including strategic initiatives to take the organisation forward over the coming years, and that additional reviews will be conducted in 2015/16 to deliver continued improvement to financial reporting and control.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over finances 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. In March 2014 the trust was found by Monitor to have complied with the enforcement undertakings related to paediatric services. The trust was removed from special measures in June 2014. In August 2014 the trust was found by Monitor to have made significant improvements in all other key areas related to financial and governance issues, and therefore the remaining enforcement undertakings were all lifted.

In February 2015 the trust accepted new enforcement undertakings from the trust relating to its financial position and ongoing financial sustainability. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges the financial concerns identified by Monitor in its enforcement action and reports that actions are already underway to comply with these undertakings, including the development of a recovery plan and commission of an independent financial governance review. The trust also outlines its action plans to address ongoing governance concerns, for instance failure to meet a healthcare target and quality concerns over its surgical services.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over finances identified in the most recent enforcement action taken by Monitor.

- 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. In December 2014 the trust was found by Monitor to have complied with the enforcement undertakings accepted in April 2013. In January 2015 the trust was found to have complied with the discretionary requirements imposed by Monitor relating to target breaches and board governance. At the 2014/15 year end the trust remained subject to those discretionary requirements imposed by Monitor relating to its financial position.

In its annual governance statement the trust outlines the actions it has undertaken to address its various governance concerns, including a review of the systems and processes for good corporate governance, a review of board and committee structures, a review of reporting lines and an improved board assurance framework. The trust discloses financial planning concerns which have resulted in a requirement for further funding to support its estates and IT improvements, and advises that it has put in place a robust financial management programme for effective financial decision making, management and control. The trust identifies further significant internal control issues in 2014/15, namely A&E performance, the occurrence of five 'never events', high sickness absence rates and an internal audit report which found a failing in information governance. The trust advises that all significant internal control issues are being addressed.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over the trust's financial position 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. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance issues. At the 2014/15 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 discloses that improving its risk management systems has been a key focus for 2014/15, for instance re-defining the board assurance framework and implementing a new risk management framework. The trust also states that it has responded to quality concerns identified by the CQC, developing a detailed action plan to address areas for improvement. The trust discloses that it has incorporated the recommendations outlined by reviews on theatre governance, divisional governance and being 'well led', as well as a sustainability review undertaken to address financial concerns.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over finances identified in the enforcement action taken by Monitor.

- **Calderdale & Huddersfield NHS Foundation Trust:** In January 2015 Monitor accepted enforcement undertakings from the trust relating to the trust's financial position and ongoing financial sustainability and associated board governance issues. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges its significant financial challenges and outlines the actions it has taken to address them, including the development of a strengthened finance and performance committee and the implementation of robust cost improvement plans (CIPs). The trust states that it has also put in place turnaround arrangements including the appointment of an interim turnaround director. The trust discloses a number of other significant concerns during 2014/15, including the failure to meet A&E and Clostridium difficile targets and gaps in clinical

staffing levels. It declares that action plans are in place to address these concerns.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns over finances identified in the enforcement action taken by Monitor.

- 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. In July 2014 the trust was found by Monitor to have complied with the enforcement undertakings. At the 2014/15 year end the trust was not subject to any enforcement action.

In its annual governance statement the trust reports that a number of actions have been taken to develop its risk management system, but discloses that it needs to implement further improvements going forwards. The trust identifies capacity as a particular risk and control issue that may ultimately impact on the delivery of targets, the quality of care and the trust's financial position.

- Colchester Hospital University NHS Foundation Trust: In November 2013 Monitor imposed discretionary requirements on the trust following a CQC report that identified various governance issues and the trust was placed in special measures. At the same time Monitor imposed an additional licence condition on the trust requiring it to have an effective board, board committees and management to enable it to address the governance issues. In August 2014 Monitor accepted additional enforcement undertakings from the trust relating to quality governance issues highlighted in a CQC report dated July 2014. Monitor accepted further enforcement undertakings from the trust in February 2015, relating both to governance issues (in particular issues with urgent and emergency services and medical care as identified in a CQC report dated January 2015), and to the trust's financial position and ongoing financial sustainability. At the 2014/15 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 accepts the significant internal control issues identified above by Monitor and the CQC, and acknowledges that processes to ensure an adequate and effective system of internal control have not been fully embedded throughout 2014/15. The trust declares that its

priority is to put in place sustainable systems and processes of internal control, including the implementation of actions recommended in the CQC improvement plan, a financial recovery plan and workforce strategy, and the embedding of a robust risk management strategy and related assurance and escalation framework.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Derby Teaching Hospitals NHS Foundation Trust: 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 on the trust requiring it to have sufficient board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to address the relevant issues. In September 2014 the trust was found by Monitor to have complied with the enforcement undertakings accepted in April 2013. At the same time Monitor removed the additional licence condition imposed in October 2013 as concerns over the A&E target and financial issues had been satisfactorily allayed.

In September 2014 Monitor accepted new enforcement undertakings from the trust due to its failure to meet RTT and cancer targets and because of ongoing issues with regard to its financial position. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust declares an ongoing focus on maintaining standards against cancer, RTT and A&E targets, and highlights improvement in this area in 2014/15. The trust also discloses the stringent forms of monitoring it has implemented in terms of budgetary control and expenditure, together with the provision of a long-term financial recovery plan.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Heatherwood and Wexham Park Hospitals NHS Foundation Trust: Monitor found the trust in significant breach of its terms of authorisation in July 2009. 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. In July 2014 variations to the terms of the enforcement undertakings were agreed following a CQC report in May 2014 and the trust was placed in special measures. The trust remained subject to this enforcement action and in special measures until 1 October 2014 at which point it was acquired by Frimley Park Hospital NHS Foundation Trust. This trust was then re-named Frimley Health NHS Foundation Trust (Frimley Health).

In its annual governance statement on behalf of the trust, which covers the first six months of 2014/15, Frimley Health identifies the trust's most significant internal control issues and reports that it has been taking action to address them since the acquisition. The trust's main risks included failure of its long-term strategy, trust reputation, risk of non-compliance with CQC standards, resourcing and funding, patient flow, staffing capacity, patient experience, women's health and inadequate system-wide integrated working. In-year, the trust board established a quality improvement plan to address concerns over governance, risk mitigation and leadership in tackling service-level and clinical issues. Frimley Health advises that it has since incorporated these plans into its own quality improvement plan.

The external auditor has qualified the trust's audit certificate for the six months ended 30 September 2014 as the auditor is not satisfied that the trust made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor and the ultimate acquisition of the trust by Frimley Health.

- 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. At the same time Monitor imposed an additional licence condition on the trust requiring it to improve the capacity and capability of its board and management. In April 2014 Monitor accepted enforcement undertakings from the trust relating to governance concerns including failure to comply with a healthcare target. At the 2014/15 year end the trust remained subject to this enforcement action.

In April 2015 Monitor accepted further enforcement undertakings from the trust relating both to issues with its financial position and to its failure to comply with the discretionary requirements imposed by Monitor in April 2013 with regard to governance. The latter included failure to meet a healthcare target. At the same time Monitor imposed an additional licence condition on the trust requiring it to have sufficient board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to address its governance issues. In May 2015 the trust was found by Monitor to have complied with those April 2014 enforcement undertakings relating to target breaches and safety.

In its annual governance statement the trust declares improvements in the quality of its performance and safety record since the CQC inspection in September 2014, although it discloses that end of life care remains an area of priority for further development in 2015/16. The trust advises that it is currently working to deliver sustainable improvement in A&E transit time and acknowledges the need for further action in the area of board governance. Regarding its financial concerns the trust declares that its deficit is currently in line with an approved plan, and points in particular to the delivery of its cost improvement programme. The trust provides reassurance that it can return to a breakeven position within its strategic planning timeframe.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- **Medway NHS Foundation Trust:** 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 requiring it to have sufficient board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to address its governance issues. In February 2014 Monitor imposed discretionary requirements on the trust relating to quality governance concerns, a further CQC inspection, management capacity and the trust's financial position. Monitor also required the Trust to appoint a new interim chair and chief executive. At the 2014/15 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 discloses a number of significant internal control issues during 2014/15, in particular financial challenges, CQC concerns, mortality rates and emergency department challenges and underperformance. The trust declares that it has seen some positive improvements against these concerns since a number of key executive appointments were made later in the year. It advises that it is addressing concerns over emergency care through measures including improvements to emergency shift leadership and performance management. Concerns over mortality are being addressed through initiatives such as a redesign of the mortality review structure and the setting up of a trust-wide mortality group. Staffing levels are being addressed through the recruitment of key posts and the introduction of a new workforce plan. The trust also declares that it is working to reduce its financial deficit by taking steps including the strengthening of its financial control environment, although it currently faces severe financial pressures. The trust reports that the board will continue to work towards a more stable position with the aim of coming out of special measures.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- 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 TSAs. From April 2013, Monitor appointed Trust Special Administrators (TSAs) to develop recommendations for the trust which would safeguard the provision of health services locally. The TSAs' final report was presented to Monitor in December 2013, recommending the dissolution of the trust and the transfer of its hospitals and services to other local providers. On 1 November 2014 this transfer was finalised, allowing for the future dissolution of the trust. The trust ceased to provide services on this date and its licence was revoked.

In its annual governance statement on behalf of the trust, the acting TSA divides its statement into two distinct periods: 1 April to 31 October 2014, when the trust was responsible for the delivery of healthcare services, and 1 November 2014 to 31 March 2015, when it was predominantly responsible for the management of any criminal liabilities. The TSA is satisfied that, although the trust was not sustainable in the long term from a clinical or financial perspective, the trust continued to ensure the safety of patients and the quality of care to patients up to the point at which its services were transferred. Although weaknesses around control areas such as data quality and safeguarding were identified, the TSA discloses that a generally sound system of control was in place and that no issues were identified as 'significant'. It advises that, immediately after 31 October 2014, the handover process mitigated risks to ensure continuity of service delivery, with a safe handover of all staff, property and other assets. The TSA declares that since 1 November 2014 sound systems of internal control have been maintained by the trust in the management of criminal liabilities.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor and the ultimate transfer of services from the trust.

- 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. In December 2014 Monitor accepted additional enforcement undertakings from the trust in relation to governance concerns including its ongoing failure to meet a healthcare target, and to its deteriorating financial position. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust identifies A&E performance and data quality as its most significant ongoing internal control challenges, and elsewhere discloses its failure to deliver appropriate standards of care in women's health as one of its highest rated risks. The trust outlines the actions it is putting into effect to address these concerns, for instance its implementation of recommendations from an external report on women's health, the work of its maternity improvement board, actions to tackle agency and locum staffing, its focus on nursing recruitment, and the introduction of rigorous clinical and operational management to deliver key national targets. In terms of its financial concerns the trust declares that it has made material

improvements to its internal financial governance systems, but advises that its overall financial position and long term financial sustainability continue to be a challenge. The trust discloses material uncertainties over whether it will continue to exist as a going concern.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Northern Lincolnshire and Goole NHS Foundation Trust: In August 2013 Monitor accepted enforcement undertakings from the trust 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, requiring it to have an effective board, board committees and management to enable it to address the governance issues. In July 2014 the trust was removed from special measures due to significant improvements in care quality. In October 2014 the trust was found by Monitor to have complied with its governance-related enforcement undertakings. At the 2014/15 year end the trust remained subject to its additional licence condition on the basis of its emerging financial issues and associated governance issues.

In April 2015 Monitor accepted new enforcement undertakings from the trust relating to concerns about its financial position and ongoing financial sustainability.

In its annual governance statement the trust outlines the progress it made in 2014/15 with respect to quality governance, an outcome reflected in the findings of a CQC re-inspection early in the year. The trust acknowledges that it has missed healthcare targets this year and that it is not yet fully compliant with its CQC registration requirements, but states that it is putting in place action plans to address this. With regards to its financial position the trust refers to a wider sustainability gap across the local health economy, but states that it is establishing and implementing systems and processes to tackle concerns that sit within its control. The trust declares that it has made some progress against this in 2014/15 and anticipates significant further progress in 2015/16.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Peterborough and Stamford Hospitals NHS Foundation Trust: 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 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; this report diagnosed the causes of the financial deficit and found that, although the trust was clinically and operationally sustainable, it was financially unsustainable in its current form. In September 2013 the CPT made recommendations to form a recovery plan for the trust, and these were adopted by Monitor and the trust board. Monitor accepted additional enforcement undertakings from the trust in September 2013 relating to the implementation of these proposals. At the 2014/15 year end the trust remained subject to this enforcement action. The trust has made progress in some areas and Monitor is in the process of agreeing new enforcement undertakings from the trust.

In its annual governance statement the trust acknowledges the concerns identified by the CQC with respect to A&E and medical care, and advises that action has been taken to address these issues. It also identifies as areas of concern its inability to recruit permanent staff and control activity growth, and states that work is continuing to focus on improving the flow of patients through its hospitals and its capacity to provide services. The trust also discloses uncertainties over its ability to meet financial targets, but reports that an action plan is in place to manage the deficit.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Royal Berkshire NHS Foundation Trust: In December 2014 Monitor accepted enforcement undertakings from the trust. These related to a range of governance concerns including data quality, managerial oversight, risk management and CQC compliance (following a CQC report in June 2014), and to concerns over the trust's financial position, in particular risks attached to CIPs and other material non-recurrent costs. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges the CQC's concerns and explains that a significant review of its quality governance arrangements was undertaken in 2014/15, with notable progress made against the areas of strategic planning, risk management, culture and

workforce, and information management. The trust also declares significant improvement with respect to meeting RTT, A&E and cancer targets, but discloses that shortcomings in the IT control environment continue to pose a risk to the trust. With regards to its financial position, the trust advises that it is making progress on its action plan to eliminate the deficit.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Sherwood Forest Hospitals NHS Foundation Trust: 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 2014/15 year end the trust remained subject to this enforcement action and was in special measures for failings in patient care and governance.

In April 2015 the trust was found to have complied with the additional enforcement undertakings accepted by Monitor in August 2013 and the discretionary requirements imposed in April 2013 were withdrawn. On the same date Monitor accepted new enforcement undertakings from the trust, relating both to concerns over the trust's financial position and ongoing financial sustainability, and to governance issues including failure to meet key healthcare targets. At the same time Monitor imposed an additional licence condition on the trust, requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to address the relevant governance issues. The trust also remains in special measures.

In its annual governance statement the trust recognises that internal control needs strengthening and declares that it has taken action to address its governance concerns. The trust points to a quality improvement plan which addresses areas including leadership, risk management, staffing and emergency flow. The appointment of a turnaround director in March is intended to ensure additional capacity focuses on developing a robust financial recovery plan and achieving the transformational changes necessary. The trust declares that a recovery programme has been implemented in response to its failure to meet healthcare targets and that new draft trajectories are being developed to improve data quality.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- South Tees Hospitals NHS Foundation Trust: In July 2014 Monitor accepted enforcement undertakings from the trust relating to governance concerns, including failure to meet a key healthcare target, and to issues with its financial position and ongoing financial sustainability. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to address the governance issues. At the 2014/15 year end the trust remained subject to this enforcement action.

In June 2015 Monitor agreed updated enforcement undertakings with the trust in relation to *Clostridium difficile* in particular.

In its annual governance statement the trust declares that no significant control issues were identified in 2014/15. Although the trust did not achieve the required improvement against *Clostridium difficile* targets, it has revised and updated its action plan and reviewed its governance of the infection prevention and control processes. In response to its failure to achieve the A&E waiting time target, the trust has commissioned external support for redesign of the emergency care pathway. The trust declares that it has also commissioned an independent review of its wider governance arrangements, with areas of concern including clarity over the portfolios of the executive team and consistency in governance arrangements across clinical centres. With regard to its financial concerns, the trust has commenced a financial recovery programme and appointed a transformation director so that it can tackle its financial position.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Tameside Hospital NHS Foundation Trust: 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, requiring it have an effective board, board committees and management to address the governance issues. At the 2014/15 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 declares that no significant control issues were identified in 2014/15, but acknowledges that the control environment should continue to improve. The trust has progressed an extensive improvement programme during 2014/15 to address identified internal control issues. The trust has reviewed its risk management strategy to improve risk identification, assessment, response, reporting and review. An improvement plan has been developed to improve A&E waiting time performance. The trust has responded to its 'inadequate' CQC rating by implementing recommendations around the safety, effectiveness and responsiveness of care, including the development of critical care services, ensuring adherence to governance systems and improving patient flow. The trust also declares that a number of controls have been put in place to improve its cost control, cost improvement plan delivery and liquidity, including the establishment of a project management office.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust: 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 enforcement undertakings from the trust and imposed discretionary requirements on the trust in relation to these and other quality issues. The trust was also placed in special measures. A CPT was appointed by Monitor in September 2014 to investigate and help the trust to address its financial concerns. At the 2014/15 year end the trust remained subject to this enforcement action, subject to the CPT, and in special measures for failings in

patient care and governance.

The CPT was completed in May 2015. In June 2015 the trust was found by Monitor to have complied with the terms of the discretionary requirements imposed on the trust in October 2013. Monitor is in the process of agreeing new enforcement undertakings from the trust to support implementation of the CPT's findings, recommendations and associated actions.

In its annual governance statement the trust acknowledges that the consistent provision of quality care and its ability to meet operational performance targets remain significant internal control issues. The trust points to the CQC's concerns over its compliance with safeguarding, staffing, support for workers and medicines management, and declares that improvements to its quality governance programme have been delivered including revised corporate, clinical and quality governance structures. The trust declares that a rapid progression group has been implemented to drive and monitor the delivery of improvement against the CQC's findings and recommendations. The trust discloses concerns about its financial sustainability and advises that the CPT has been working with the trust to address these issues.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- The Rotherham NHS Foundation Trust: 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 on the trust requiring it to have an effectively functioning board, board committees and personnel to enable it to address these governance issues. In June and September 2013, Monitor accepted additional enforcement undertakings from the trust relating to the implementation of its governance plan and strategic plan respectively.

In July 2014 the trust was found by Monitor to have complied with those April 2013 enforcement undertakings relating to the implementation of its electronic patient records system. In January 2015 the trust was found to have complied with the remaining governance-related enforcement undertakings. At the 2014/15 year end the trust remained subject to the enforcement undertakings and to the additional licence condition relating to financial issues.

In its annual governance statement the trust has identified its financial position as an area of enhanced scrutiny, but concludes that the trust had no significant internal control issues in 2014/15. The trust declares that extensive work has been undertaken to implement improvements to financial planning and governance, including a combination of transactional and transformational savings schemes for 2015/16. The trust will work on ensuring that it returns to an underlying surplus, and accordingly has developed a financial governance action plan covering capacity and capability of staff, financial reporting, working capital, training and education.

- 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. At the same time Monitor imposed discretionary requirements on the trust relating to governance concerns, the quality of financial management and CQC concerns over its maternity services. In July 2014 Monitor accepted additional enforcement undertakings from the trust relating to governance and quality issues, following further concerns expressed by the CQC. At the same time the trust was placed in special measures for failings in patient care and governance. In March 2015 Dr Bill Kirkup CBE reported on the findings of the Morecambe Bay Investigation in which recommendations were made to reduce risk and improve the quality of maternity services. At the 2014/15 year end the trust remained subject to enforcement action and was in special measures.

In its annual governance statement the trust discloses that action plans have been developed to address concerns around quality, maternity, governance, emergency care and financial health. An overarching quality improvement plan has been developed to address matters such as staffing levels and communication with frontline staff. The trust declares that it has achieved progress against its maternity and governance action plans, with a significant increase in internal audit reports returning 'high' or 'significant' levels of assurance. The trust discloses that it has a significant financial challenge in the current and future years, and reports that detailed programmes of work have begun to address the trust's strategy and cost improvement programmes.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- University Hospital of South Manchester NHS Foundation Trust: In May 2014 Monitor accepted enforcement undertakings from the trust relating to its financial position and ongoing financial sustainability, and to board governance concerns including failure to comply with a healthcare target. At the 2014/15 year end the trust remained subject to this enforcement action.

In its annual governance statement the trust acknowledges the gaps in internal control identified by Monitor in 2014/15 in relation to failures to meet financial targets and the A&E national standard. The trust discloses that an improvement programme is in place to secure future financial sustainability, with a turnaround director and programme management office appointed to oversee it. A recovery plan is also in place to achieve financial balance in the shorter term. Achievement of the A&E four-hour target remains at significant risk, but an improvement plan has been put in place to address it and will be monitored on a daily basis.

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.

- Ashford and St Peter's Hospitals NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control issues related to its failure to meet A&E, RTT and cancer targets. The trust states that it has a good understanding of the issues which led to these failures and reports that detailed action plans have been agreed to address them.
- Bradford Teaching Hospitals NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control issues in relation to outpatient follow-up processes and the management of patients on 18-week RTT pathways. The trust advises that the relevant concerns, raised by the CQC based on inspections in October and November 2014, are being taken seriously by the trust and that a detailed action plan has been submitted to the CQC to resolve them.

- City Hospitals Sunderland NHS Foundation Trust: While the trust has not disclosed significant internal control weaknesses in its annual governance statement, it does disclose concerns around its cash position and need for external funding. The trust advises that these cast significant doubt over its ability to continue as a going concern. Accordingly, in March 2015 Monitor opened an investigation into the trust's financial sustainability.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the trust's forecast financial position, its requirement for external funding and Monitor's ongoing investigation.

- Central and North West London NHS Foundation Trust: In its annual governance statement the trust discloses the existence of significant control issues in 2014/15. Firstly, the trust states that, although the CQC lifted two warning notices during 2014/15, compliance actions relating to quality concerns still remain outstanding. Action plans have been implemented and a special measures programme board has been established to drive improvements. Secondly, the trust reports that it has addressed uncertainties over its financial health through the establishment of a challenge board which oversees a series of change programme work streams to deliver productivity, efficiency and transformational cost improvements.
- County Durham and Darlington NHS Foundation Trust: In its annual governance statement the trust discloses a range of internal control weaknesses that it considers significant. In particular, the trust points to its Head of Internal Audit's opinion that controls around financial management and recruitment procedures (among others) require improvement; and also that the trust regularly missed the four-hour A&E waiting time target due to significant ongoing activity pressures. The trust outlines the actions it is taking to address and manage these internal control weaknesses.
- Derbyshire Community Health Services NHS Foundation Trust: In its annual governance statement the trust discloses that it has identified two significant control issues in 2014/15. Firstly, it declares that a high risk has been identified relating to the knowledge and understanding of staff of the Consent, Capacity and Mental Health Act, and explains that it has taken action to develop controls in this area. Secondly, the trust discloses data quality concerns around dental general anaesthetic pathways, and declares that it is working with its internal auditors to develop its data collection and validation processes.

- Great Western Hospitals NHS Foundation Trust: In April 2015 Monitor accepted enforcement undertakings from the trust in relation to its financial position, ongoing financial sustainability and associated governance issues.

While the trust has not disclosed significant control weaknesses in its annual governance statement, it does disclose that it has lacked robust financial recovery plans and a plan to ensure financial sustainability. The trust declares that it has commissioned an independent review of its financial governance arrangements and that the arising actions have been pulled together in an action plan due for roll-out over the coming months.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Hampshire Hospitals NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control weaknesses relating to its failure to achieve A&E and RTT waiting time targets; the functionality of the patient management system; and processes regarding inventory records, maintenance schedules and management oversight for medical equipment.
- Homerton University Hospital NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it does disclose control weaknesses with regard to its quality governance arrangements as highlighted by the receipt of three CQC warning notices during 2014/15. The trust declares that it has made representations against some of the content in the CQC notices, but that it has responded with immediate actions to address those areas it agrees require improvement.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This qualification relates to the CQC's review findings.

- King's College Hospital NHS Foundation Trust: In April 2015 Monitor accepted enforcement undertakings from the trust, in relation to its financial position and ongoing financial sustainability. These concerns have developed since the trust's acquisition of Princess Royal University Hospital (PRUH) in October 2013.

In its annual governance statement the trust acknowledges the effect of the PRUH acquisition on its financial and operational stability, and declares that it is developing a short term recovery plan to deliver the improvements at PRUH

that the trust had planned to make when it took over the hospital and a longer term plan for sustainability. The trust states that these plans are also being enhanced by strengthened governance arrangements to deliver financial cost improvements without adversely affecting patient safety and quality. The trust also discloses significant internal control issues around the appointment of short term administrative staff, with the authorisation process not being correctly followed in a number of cases. The trust declares that additional controls are being instigated to prevent this from happening in the future.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns identified in the enforcement action taken by Monitor.

- Norfolk and Norwich University Hospitals NHS Foundation Trust: In April 2015 Monitor accepted enforcement undertakings from the trust relating to various governance issues including failure to meet healthcare targets and concerns over management and board capacity. At the same time Monitor imposed an additional licence condition on the trust requiring it to have effective board, management and clinical leadership capacity and capability, as well as appropriate governance systems and processes, to enable it to address the governance issues.

In its annual governance statement the trust acknowledges that its capacity and ability to achieve key performance targets remains a significant risk and control issue. The trust declares that the Board is addressing this through its agreed improvement plans for addressing specific areas of performance; and also through its operational plan for 2015/16, which is structured around ensuring the trust has adequate capacity to achieve key waiting time targets in A&E, cancer and RTT on a sustainable basis.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the concerns around healthcare targets identified in the enforcement action taken by Monitor.

- South Central Ambulance Service NHS Foundation Trust: In its annual governance statement the trust discloses that a data security breach in April 2014 represented a significant control issue for the trust. The trust advises that robust action was taken by the trust in response to this breach and that this has since been confirmed by the Information Commissioner's Office and the trust's internal auditors.

- South Devon Healthcare NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control weaknesses relating to compliance with the 18-week RTT waiting time for admitted patients. The trust reports that it agreed with key stakeholders to breach the standard in order to prioritise the longest-waiting patients, but that in practice the trust did not achieve the trajectory for RTT recovery and sustainable delivery for which it had planned. The trust declares that progress is now being achieved and that this will continue into 2015/16.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the auditor's concerns around the trust's non-delivery of the RTT target.

- St George's University Hospitals NHS Foundation Trust: While the trust has not disclosed significant internal control weaknesses in its annual governance statement, it does identify its financial performance and performance against A&E and RTT waiting times as areas of underperformance in 2014/15. Monitor opened up an investigation about the trust's financial position in May 2015.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the auditor's concerns around the trust's financial position, ongoing financial sustainability and non-delivery of RTT and cancer targets.

- Sussex Partnership NHS Foundation Trust: While the trust has not disclosed significant internal control weaknesses in its annual governance statement, it does report that it received a 'requires improvement' rating from the CQC based on site visits in October 2014 and January 2015. The trust declares that it has in place a comprehensive action plan to address the CQC's findings, in particular for those services rated 'inadequate'.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to the auditor's concerns around the CQC's rating of the trust.

- The Hillingdon Hospitals NHS Foundation Trust: In its annual governance statement the trust discloses significant control issues relating to the outcome of a CQC inspection in October 2014, which has resulted in two warning

notices and five compliance notices being issued. The trust also discloses significant control issues relating to an improvement notice from the Health and Safety Executive (HSE) for failure to implement the HSE (Sharp Instruments in Healthcare) Regulations 2013 in a timely manner. The trust advises that it will continue to proactively drive forward the agreed actions to attain compliance.

- The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control issues around the validation and exclusion processes for the measurement of the RTT admitted target. The trust states that the reported performance was immediately corrected in the next data submission, resulting in a rapid deterioration in performance. This led to an investigation being opened up by Monitor in the first quarter of 2015/16. The trust declares that it has developed a recovery plan to address these risks to compliance.
- Warrington and Halton Hospitals NHS Foundation Trust: While the trust has not disclosed significant control weaknesses in its annual governance statement, it identifies its financial position as one of its principal in-year risks.

The external auditor has qualified the trust's audit certificate for the year ended 31 March 2015 as the auditor is not satisfied that the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This relates to an investigation opened by Monitor into financial sustainability concerns at the trust and to the CQC's indication that it is likely to rate the trust as 'requires improvement' based on a review in January 2015.

- Wirral University Teaching Hospital NHS Foundation Trust: In its annual governance statement the trust discloses significant internal control issues in relation to CQC compliance and financial governance. The trust points to the outcome of a CQC inspection in September 2014 (which rated the trust as 'requires improvement' overall) and declares that it is achieving improvements in the areas flagged for action by the CQC. Monitor opened an investigation into financial governance concerns at the trust in quarter three of 2014/15 and the trust reports that it is working closely with Monitor to mitigate its concerns.

Financial standing

21 NHS foundation trusts have received unqualified audit opinions but their auditors have included an 'emphasis of matter' paragraph within the audit report relating to going concern or financial performance. In some cases the underlying issues are referred to in the details of Monitor's enforcement action detailed above. The NHS

foundation trusts that have an 'emphasis of matter' for going concern or financial performance within their audit report are:

- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Derby Teaching Hospitals NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust (acquired by Frimley Health NHS Foundation Trust on 1 October 2014)
- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust (ceased to provide services on 1 November 2014)
- Milton Keynes Hospital NHS Foundation Trust
- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- South Tees Hospitals NHS Foundation Trust
- St George's University Hospitals NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust.

16 NHS foundation trusts have required financial support from the Department of Health (DH) in 2014/15 to support the continued provision of services to patients. Until March 2015 this support was provided in the form of Public Dividend Capital (PDC). In March 2015 the DH modified its financing regime, with some NHS foundation trusts provided with loans instead of interim support PDC. The trusts that have received interim support funding in 2014/15 are listed below. In some cases the underlying issues are referred to in the details of Monitor's enforcement action detailed above:

- Barnsley Hospital NHS Foundation Trust
- Basildon & Thurrock University Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- Derby Teaching Hospitals NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust
- Kettering General Hospital NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust
- Milton Keynes General Hospitals NHS Foundation Trust

- Peterborough and Stamford Hospitals NHS Foundation Trust
- Queen Elizabeth Hospital King's Lynn 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
- University Hospitals of Morecambe Bay NHS Foundation Trust.

Quality reports

In 2014/15 each NHS foundation trust was required to obtain a limited assurance report from its external auditor on the content of its quality report and two mandated indicators to be included in the quality report. This reported on whether anything has come to the attention of the auditor that led it 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 2014/15' or was inconsistent with the other information sources detailed in the guidance. In reporting on mandated indicators, the auditors are forming a view on data quality rather than the quality of services more generally at a trust.

The assurance over mandated indicators followed a selection of indicators prescribed by Monitor, with different indicators applicable to different types of NHS foundation trust. In 2014/15 Monitor mandated the '*percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period*' indicator for assurance at NHS foundation trusts providing a majority of acute or specialist services. This also included community trusts where this indicator was relevant. Monitor selected this indicator following concerns raised by the National Audit Office about data quality in this area in a report issued in January 2014.

All NHS foundation trusts^{3,4,5} received their limited assurance report in respect of the content and consistency of their quality reports.

64 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, with details listed below:

³ Mid Staffordshire NHS FT ceased to provide services as at 1 November 2014 and was therefore not required to produce a quality report for 2014/15.

⁴ Heatherwood and Wexham Park NHS FT has been reported as part of the quality report for Frimley Health NHS FT. The two trusts have received one combined limited assurance report.

⁵ Royal National Hospital for Rheumatic Diseases NHS Foundation Trust has been reported as part of the quality report for Royal United Hospitals Bath NHS FT. The two trusts have received one combined limited assurance report.

- 61 trusts received a modified auditor opinion with regard to the '*percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period*' indicator
- 5 trusts received a modified auditor opinion with regard to the '*maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers*' indicator
- 1 trust received a modified auditor opinion with regard to the '*minimising delayed transfers of care*' indicator
- 1 trust received a modified auditor opinion with regard to the '*admissions to inpatient services had access to crisis resolution home treatment teams*' indicator.

Information governance

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

- accidental disclosure of confidential patient and/or staff data
- losses and thefts of laptop computers
- losses of computer memory sticks
- losses of paper medical records
- paper medical records being left in public areas
- non-secure disposal of paper documents
- accidental destruction of paper medical records
- unauthorised staff access to confidential data.

Of these 88 foundation trusts, 81 reported serious incidents in relation to information governance during the year.

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

Dr David Bennett
Chief Executive
2 July 2015

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 2015 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 2015 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

9 July 2015

Statement of Comprehensive Income

		2014/15		2013/14	
		Before	After	Before	After
		impairments and gains/ (losses) on transfers of absorption	impairments and gains/ (losses) on transfers by absorption	impairments and gains/ (losses) on transfers of absorption	impairments and gains/ (losses) on transfers by absorption
		£m	£m	£m	£m
Note					
3	Operating income from patient care activities	38,931	38,931	36,963	36,963
4	Other operating income	4,438	388	4,244	237
	Total operating income from continuing operations	43,369	388	41,207	237
5, 6	Operating expenses	(42,819)	(633)	(40,256)	(606)
	Operating surplus/(deficit) from continuing operations	550	(245)	951	(369)
10	Finance income	23	-	23	-
11	Finance expenses	(436)	-	(407)	-
	PDC dividends payable	(510)	-	(461)	-
	Net finance costs	(923)	-	(845)	-
15	Share of profit of associates/joint arrangements	5	-	3	-
34	Gains arising from transfers by absorption	-	193	-	89
34	Losses arising from transfers by absorption	-	(110)	-	-
15	Movement in the fair value of investment property and other investments	24	-	26	-
	Corporation tax expense	(1)	-	(1)	-
	Surplus/(deficit) for the year	(345)	(162)	134	(280)
Other comprehensive income/(expenditure)					
Will not be reclassified to income and expenditure:					
8	Gains/(losses) arising from transfer by absorption from demising bodies	-	-	-	705
	Net impairments charged to reserves	-	(276)	-	(215)
	Revaluations	898	-	647	-
	Other recognised gains and losses	(2)	-	(2)	-
28	Remeasurements of the net defined benefit pension scheme liability/asset	(6)	-	1	-
	Other reserve movements	-	-	(9)	-
May be reclassified to income and expenditure when certain conditions are met:					
15	Fair value gains/(losses) on available-for-sale financial investments	5	-	2	-
	Total comprehensive income/(expense) for the period	550	(438)	773	210
			112		983

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

Statement of Financial Position

		31 March 2015 £m	31 March 2014 £m
	Note		
Non-current assets			
Intangible assets	13	435	316
Property, plant and equipment	14	25,821	23,654
Investment property	15	134	121
Investments in associates (and joint arrangements)	15	29	17
Other investments	15	195	181
Trade and other receivables	17	266	238
Other financial assets	18	5	4
Other assets		3	4
Total non-current assets		26,888	24,535
Current assets			
Inventories	16	540	490
Trade and other receivables	17	2,680	2,324
Other financial assets	18	13	20
Non-current assets for sale and assets in disposal groups	19	105	112
Cash and cash equivalents	20	4,085	4,314
Total current assets		7,423	7,260
Current liabilities			
Trade and other payables	21	(4,648)	(4,233)
Other liabilities	22	(532)	(487)
Borrowings	23	(322)	(315)
Other financial liabilities		(1)	(1)
Provisions	25	(277)	(367)
Liabilities in disposal groups		-	-
Total current liabilities		(5,780)	(5,403)
Total assets less current liabilities		28,531	26,392
Non-current liabilities			
Trade and other payables	21	(25)	(21)
Other liabilities	22	(192)	(191)
Borrowings	23	(6,564)	(5,935)
Other financial liabilities		(3)	(3)
Provisions	25	(321)	(293)
Total non-current liabilities		(7,105)	(6,443)
Total assets employed		21,426	19,949
Financed by			
Public dividend capital		14,352	13,499
Revaluation reserve		5,633	4,738
Available for sale investments reserve		-	-
Other reserves		79	80
Merger reserve		2	2
Income and expenditure reserve		995	1,291
Non-controlling interest		-	-
Charitable fund reserves	32	365	339
Total taxpayers' equity		21,426	19,949

The notes on pages 64 to 120 form part of these accounts.

Dr David Bennett
Chief Executive
2 July 2015

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

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

Statement of Changes in Equity for the year ended 31 March 2014

	Public dividend capital £m	Revaluation reserve £m	Other reserves £m	Merger reserve £m	Income and expenditure reserve £m	NHS charitable fund reserves £m	Total £m
Taxpayers' and others' equity at 1 April 2013							
At start of period for new FTs	12,727	4,179	87	2	944	321	18,260
Surplus/(deficit) for the year	296	45	-	-	(25)	3	319
Transfers by absorption: gains/(losses) on 1 April transfers	-	-	-	-	(189)	43	(146)
Transfers by absorption: transfers between reserves	-	-	-	-	705	-	705
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits	89	187	-	-	(278)	2	-
Other transfers between reserves	-	(10)	-	-	10	-	-
Impairments	-	(50)	(2)	-	85	(33)	-
Revaluations	-	(215)	-	-	-	-	(215)
Transfer to retained earnings on disposal of assets	-	646	-	-	-	1	647
Fair value gains on available-for-sale financial investments	-	(36)	-	-	36	-	-
Other recognised gains and losses	-	(2)	-	-	-	2	2
Remeasurements of the defined net benefit pension scheme liability/asset	-	-	-	-	1	-	(2)
Public dividend capital received	384	-	-	-	-	-	384
Public dividend capital repaid	(2)	-	-	-	-	-	(2)
Public dividend capital written off	-	-	-	-	-	-	-
Other movements in public dividend capital in year	5	-	-	-	-	-	5
Other reserve movements	-	(6)	(5)	-	2	-	(9)
Taxpayers' and others' equity at 31 March 2014	13,499	4,738	80	2	1,291	339	19,949

Information on reserves

Public dividend capital

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

Revaluation reserve

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

Other reserves

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

Merger reserve

This reserve reflects balances formed on merger of NHS bodies.

Income and expenditure reserve

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

NHS charitable funds reserves

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

Statement of Cash Flows

	Note	2014/15 £m	2013/14 £m
Cash flows from operating activities			
Operating surplus		305	582
Non-cash income and expense:			
Depreciation and amortisation	5.1	1,239	1,202
Impairments and reversals of impairments	8	245	369
(Gain)/loss on disposal of non-current assets	5.1	(39)	(11)
Non-cash donations/grants credited to income	4	(29)	(22)
Amortisation of PFI deferred credit	4	-	-
Non-cash movements in on-SoFP pension liability		-	-
(Increase)/decrease in receivables and other assets		(161)	(698)
(Increase)/decrease in inventories		(41)	(20)
Increase/(decrease) in payables and other liabilities		212	240
Increase/(decrease) in provisions		(93)	26
Tax (paid)/received		-	1
NHS charitable funds net adjustments to operating cash flows		-	4
Other movements in operating cash flows		6	(3)
Net cash generated from/(used in) operating activities		1,644	1,670
Cash flows from investing activities			
Interest received		15	17
Purchase and sale of financial assets		4	16
Purchase of intangible assets		(153)	(117)
Sales of intangible assets		-	1
Purchase of property, plant, equipment and investment property		(1,964)	(1,944)
Sales of property, plant, equipment and investment property		101	129
PFI lifecycle prepayments		(14)	(14)
Cash from acquisitions and disposals of business units and subsidiaries		(1)	2
NHS charitable funds investing cash flows		12	11
Net cash generated from/(used in) investing activities		(2,000)	(1,899)
Cash flows from financing activities			
Public dividend capital received		657	389
Public dividend capital repaid		(208)	(2)
Movement on loans from the Department of Health and Independent Trust Financing Facility		625	412
Movement on other loans		20	119
Capital element of finance lease rental payments		(36)	(34)
Capital element of PFI, LIFT and other service concession payments		(156)	(93)
Interest paid on finance lease liabilities		(10)	(10)
Interest paid on PFI, LIFT and other service concession obligations		(347)	(336)
Other capital receipts		9	1
Other interest paid		(61)	(45)
PDC dividend paid		(511)	(455)
NHS charitable funds financing cash flows		-	-
Cash flows from (used in) other financing activities		(10)	(10)
Net cash generated from/(used in) financing activities		(28)	(64)
Decrease in cash and cash equivalents		(384)	(293)
Cash and cash equivalents at 1 April		4,309	4,577
Cash and cash equivalents at start of period for new FTs		114	25
Cash and cash equivalents transferred under absorption accounting	34	36	-
Cash and cash equivalents at 31 March	20.1	4,075	4,309

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

Notes to the Accounts

Note 1 Accounting policies and other information

Basis of preparation

Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 requires Monitor to prepare a consolidated set of 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.

Note 1.1 Consolidation

Basis of consolidation

These accounts consolidate the accounts of all NHS foundation trusts that have been in existence during 2014/15 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 2014/15 and 2013/14

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

Machinery of government changes in 2014/15 and 2013/14

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 applied and the net gain/loss corresponding to the net assets/liabilities transferred from the relevant PCT/SHA was 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 only applied to normal absorption accounting transfers and no PDC transferred as part of the modified absorption transfers. Modified absorption accounting does not apply to any transaction in 2014/15.

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 2013/14 and 2014/15 are provided in note 34.

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 2013/14 and 2014/15.

Other business combinations

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

Subsidiaries

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

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

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

NHS charitable funds

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

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

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

Associates

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

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

Joint ventures

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

Joint ventures are accounted for using the equity method.

Joint operations

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

Note 1.2 Income

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

Note 1.3 Expenditure on employee benefits

Short-term employee benefits

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

Pension costs

NHS Pension Scheme

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

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

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

In order that the defined benefit obligations recognised in the financial statements of the NHS Pension Scheme 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 2015, is based on valuation data as 31 March 2014, updated to 31 March 2015 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in International Accounting Standard (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 2014/15 annual accounts, was completed for the year ending 31 March 2012.

The Scheme Regulations 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.

The 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%; 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. There are two sections to the scheme, the 1995 Section and the 2008 Section where different eligibility requirements and benefits apply. Annual pensions are normally based on 1/80th of the best of the last three years' pensionable pay for each year of service for the 1995 section, and 1/60th of reckonable pay per year of membership for the 2008 section. 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 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 the 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 an NHS foundation trust is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). The scheme assets and liabilities attributable to these employees can be identified, are recognised in the accounts of NHS foundation trusts and are consolidated here.

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

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

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

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

Trust	Pension fund	Administering body
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	Hampshire County Council
	Wiltshire Pension Fund	Wiltshire Council

* During 2014/15 all members of the Local Government Pension Schemes employed by Southern Health NHS Foundation Trust left the trust's employment. As at 31 March 2015 the net pension liability has transferred to another body.

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

** During 2014/15 all members of the Local Government Pension Scheme employed by Norfolk and Suffolk NHS Foundation Trust left the trust's employment. As at 31 March 2015 the trust no longer has membership of this scheme.

Other pension schemes

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

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

Note 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.

Note 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.

Note 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 trust;
- it is expected to be used for more than one financial year; and
- the cost of the item can be measured reliably.

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

Measurement

Valuation

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

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

All land and buildings are re-valued at regular intervals, and at least once every 5 years, to ensure the valuation 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 proper valuation 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 £m	Buildings excluding dwellings £m	Dwellings £m	NHS charitable fund property £m
Modern Equivalent Asset (no alternative site)	2,463	12,987	148	5
Modern Equivalent Asset (alternative site)	672	4,614	55	-
Other Professional Valuations	427	1,115	31	2
Total	3,562	18,716	234	7

Subsequent expenditure

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

Depreciation

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

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

Revaluation gains and losses

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

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

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

Impairments

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

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

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

De-recognition

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

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

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

Donated, government grant and other grant funded assets

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

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

Private finance initiative (PFI) transactions

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

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

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

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	999
Buildings, excluding dwellings	1	190
Dwellings	1	105
Plant & machinery	1	68
Transport equipment	1	20
Information technology	1	18
Furniture & fittings	1	32

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

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

Note 1.7 Intangible assets

Recognition

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

Internally generated intangible assets

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

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

Software

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

Measurement

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

Subsequently intangible assets are measured at valuation. Revaluations 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	12
Other	3	10
Intangible assets - purchased		
Software	1	20
Licences & trademarks	1	15
Patents	2	10
Other	1	10
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.

Note 1.8 Investment properties

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

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

Note 1.9 Revenue government and other grants

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

Note 1.10 Inventories

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

Note 1.11 Financial instruments and financial liabilities

Recognition

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

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

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

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

De-recognition

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

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

Classification and measurement

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

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

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

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

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

Loans and receivables

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

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

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

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

Available-for-sale financial assets

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

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

Financial liabilities

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

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

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

Determination of fair value

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

Impairment of financial assets

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

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

Note 1.12 Cash and cash equivalents

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

Note 1.13 Leases

Finance leases

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

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

Operating leases

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

Leases of land and buildings

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

Note 1.14 Provisions

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

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rates effective for 2014/15.

		Real rate
Short-term	Up to 5 years	-1.50%
Medium-term	After 5 years up to 10 years	-1.05%
Long-term	Exceeding 10 years	2.20%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 1.30% in real terms.

Clinical negligence costs

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

Non-clinical risk pooling

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

Note 1.15 Contingencies

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

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

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

Note 1.16 Public dividend capital

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

A charge, reflecting the cost of capital utilised by an NHS foundation trust, is payable as PDC dividend. The charge is calculated at the rate set by the Secretary of State with the consent of HM Treasury (currently 3.5%) on the average relevant net assets of an NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets (including lottery funded assets), (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, (iii) 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, except for correction of any error in the calculation of the dividend itself.

Note 1.17 Value added tax

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

Note 1.18 Corporation tax

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

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

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

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

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

Note 1.19 Foreign exchange

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

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

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

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

Note 1.20 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The CRC scheme is a mandatory cap and trade scheme for non-transport CO₂ emissions. Some NHS foundation trusts have emissions above this cap and participate in the scheme. Where NHS foundation trusts are registered with the CRC scheme, they are required to surrender to the Government an allowance for every tonne of 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.

Note 1.21 Third party assets

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

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

Note 1.22 Losses and special payments

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

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

Note 1.23 Going concern

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

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

The auditors of 21 NHS foundation trusts have included an emphasis of matter within the trust's audit report to draw attention to the going concern disclosure in those accounts (2013/14: 13). These 21 NHS foundation trusts comprise 13.5% of total operating income. 14 of these trusts received interim support funding from the Department of Health during 2014/15 totalling £331.7 million. Details of the overall sector position are set out in the management commentary.

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

- Barnsley Hospital NHS Foundation Trust
- Basildon and Thurrock University Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Derby Teaching Hospitals NHS Foundation Trust
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust (acquired by Frimley Health NHS Foundation Trust on 1 October 2014)
- Kettering General Hospital NHS Foundation Trust
- King's College Hospital NHS Foundation Trust
- Liverpool Women's NHS Foundation Trust
- Medway NHS Foundation Trust
- Mid Staffordshire NHS Foundation Trust (ceased to provide services on 1 November 2014)
- Milton Keynes Hospital NHS Foundation Trust

- Northern Lincolnshire and Goole Hospitals NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Queen Elizabeth Hospital King's Lynn NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- South Tees Hospitals NHS Foundation Trust
- St George's University Hospitals NHS Foundation Trust
- University Hospitals of Morecambe Bay NHS Foundation Trust
- Warrington and Halton Hospitals NHS Foundation Trust

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

Note 1.24 Critical accounting 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.

Note 1.25 Early adoption of standards, amendments and interpretations

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

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

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

The following standards have not been adopted in these accounts:

- IFRS 13 Fair Value Measurement: Effective date of 2013/14 under EU adoption, however this is not adopted by the HM Treasury FReM until 2015/16.
- IFRS 15 Revenue from contracts with customers: Effective from 2017/18 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 expected to be from 2018/19
- IAS 36 Impairment of Assets (amendment) – recoverable amounts disclosure: Effective date 2014/15 under EU adoption, however this is not adopted by the HM Treasury FReM until 2015/16 as it is aligned to IFRS 13 adoption.
- 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 from 2015/16 but not yet EU adopted.
- IFRIC 21 Levies: EU adopted in June 2014 but not yet adopted by HM Treasury.

The adoption of IFRS 13 Fair Value Measurement from 1 April 2015 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.

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

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

Note 2 Operating segments

The NHS foundation trust sector is formed of five types of NHS foundation trust, providing different services: acute, ambulance, community, mental health and specialist. The first community trusts were authorised in 2014/15.

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

These are two alternative segmental analyses. 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

2014/15	Community £m	Ambulance £m	Specialist £m	Mental Health £m	Acute £m	Total £m
Income (less impairment reversals)	153	952	3,095	8,381	31,520	44,101
Expenditure before depreciation and impairment	(149)	(899)	(2,886)	(7,990)	(30,372)	(42,296)
Depreciation and amortisation	(2)	(40)	(113)	(176)	(908)	(1,239)
Impairments (net of reversals)	-	(3)	(91)	(110)	(41)	(245)
Net finance costs	(1)	(7)	(43)	(166)	(713)	(930)
Gains/(losses) from transfers by absorption	-	6	(7)	-	84	83
Other	-	-	(1)	2	5	6
Surplus / (deficit) for the year ¹	1	9	(46)	(59)	(425)	(520)
<i>Number of trusts</i>	3	5	18	42	85	153

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

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

	Large Teaching £m	Large other £m	Medium £m	Small £m	Total £m
2014/15					
Surplus / (deficit) for the year	198	(29)	(313)	(281)	(425)
<i>Number of trusts</i>	20	6	39	20	85
2013/14					
Surplus / (deficit) for the year	110	(19)	(186)	(111)	(206)
<i>Number of trusts</i>	19	6	38	20	83

Analysis by region

2014/15	Midlands &				
	North £m	East £m	South £m	London £m	Total £m
Income (less impairment reversals)	16,300	9,563	9,626	8,610	44,099
Expenditure before depreciation and impairment	(15,620)	(9,325)	(9,201)	(8,148)	(42,294)
Depreciation and amortisation	(404)	(271)	(317)	(247)	(1,239)
Impairments (net of reversals)	(6)	(89)	(63)	(87)	(245)
Net finance costs	(315)	(229)	(181)	(205)	(930)
Gains/(losses) from transfers by absorption	-	(110)	6	187	83
Other	5	(1)	-	2	6
Surplus / (deficit) for the year ¹	(40)	(462)	(130)	112	(520)
Number of trusts	56	40	37	20	153

2013/14	Midlands &				
	North £m	East £m	South £m	London £m	Total £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 from transfers by absorption	-	-	-	89	89
Other	-	1	-	5	6
Surplus / (deficit) for the year ¹	(127)	(126)	(57)	155	(155)
Number of trusts	55	38	35	19	147

Reconciliation to Statement of Comprehensive Income

	2014/15 £m	2013/14 £m
Operating income before impairments and consolidation adjustments	44,099	41,897
Less: Inter FT income adjustment	(753)	(704)
Add: NHS charitable funds consolidation ²	23	14
Operating income before impairments	43,369	41,207
Operating expenditure before depreciation, impairments and consolidation adjustments	(42,294)	(39,724)
Depreciation	(1,239)	(1,202)
Less: Inter FT expenditure adjustment	753	704
Add: NHS charitable funds consolidation ²	(35)	(33)
Add: Other consolidation adjustments	(4)	(1)
Operating expenditure before impairments	(42,819)	(40,256)
Operating surplus before impairments	550	951
Surplus/(deficit) for the year before impairments, transfers and consolidation adjustments ³	(358)	125
Add: Other consolidation adjustments	-	(1)
Add: NHS charitable funds consolidation ²	13	10
Surplus / (deficit) for the year before impairments and transfers	(345)	134

¹ These totals are after impairments and transfers but exclude consolidated charitable funds.

² 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.

³ This number differs from the result in the report *Performance of the foundation trust sector: year ended 31 March 2015*, due to local audit adjustments occurring after its publication. The report can be found at <https://www.gov.uk/government/publications/nhs-foundation-trusts-quarterly-performance-report-quarter-4-201415>

Note 3 Operating income from patient care activities

Note 3.1 Income from patient care activities (by nature)

	2014/15 £m	2013/14 restated £m
Acute services		
Elective income	5,620	5,463
Non elective income	6,620	6,501
Outpatient income	4,849	4,694
A & E income	944	893
Other NHS clinical income	10,467	9,351
Mental health services		
Cost and volume contract income	426	414
Block contract income	4,956	5,337
Clinical partnerships providing mandatory services (including S75 agreements)	204	196
Clinical income for the secondary commissioning of mandatory services	19	29
Other clinical income from mandatory services	151	169
Ambulance services		
A & E income	738	717
Patient transport service income	74	73
Other income	89	74
Community services		
Community services income from CCGs and NHS England	2,796	2,144
Community services income from other commissioners	267	211
All services		
Private patient income	406	389
Other clinical income	305	308
Total income from activities	38,931	36,963

Note 3.2 Income from patient care activities (by source)

Income from patient care activities received from:	2014/15 £m	2013/14 restated £m
CCGs and NHS England	36,820	34,993
Local authorities	993	973
Department of Health	82	17
NHS trusts	121	97
NHS other	141	134
Non-NHS: private patients	396	381
Non-NHS: overseas patients (chargeable to patient)	25	24
NHS injury scheme (was RTA)	110	105
Non NHS: other	243	239
Total income from activities	38,931	36,963

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

Four prior year figures have been restated in note 3.1 and note 3.2 to reflect a £3 million correction in the classification of income relating to treating patients from overseas made by one NHS foundation trust.

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

	2014/15	2013/14
	£m	£m
Income recognised this year	25	24
Cash payments received in-year	14	12
Amounts added to provision for impairment of receivables	10	8
Amounts written off in-year	11	8

Note 4 Other operating income

	2014/15	2013/14
	£m	£m
Research and development	585	571
Education and training	1,634	1,616
Receipt of capital grants and donations	92	71
Charitable and other contributions to expenditure	59	75
Non-patient care services to other bodies	572	579
Profit on disposal of non-current assets	50	29
Reversal of impairments	388	237
Rental revenue from operating leases	51	48
Rental revenue from finance leases	-	-
Amortisation of PFI deferred credits	-	-
Income in respect of staff costs where accounted on gross basis	119	118
Incoming resources excluding investment income, relating to NHS charitable funds	56	53
Other income	1,220	1,084
Total other operating income	4,826	4,481

Note 5.1 Operating expenses

	2014/15	2013/14 restated
	£m	£m
Services from NHS trusts	178	174
Services from CCGs and NHS England	19	22
Services from other NHS bodies	56	51
Purchase of healthcare from non NHS bodies	475	412
Purchase of social care **	29	27
Employee expenses - executive directors	159	149
Employee expenses - staff	27,554	25,957
Non-executive directors	21	20
Supplies and services - clinical	3,455	3,216
Supplies and services - general	757	718
Establishment	499	494
Research and development	208	178
Transport	321	306
Premises	1,887	1,850
Increase in provision for impairment of receivables	93	74
Increase/(decrease) in other provisions	(6)	65
Change in provisions discount rate(s)	6	8
Inventories written down	6	4
Drug costs	3,608	3,186
Inventories consumed	182	186
Rentals under operating leases	355	331
Depreciation on property, plant and equipment	1,162	1,143
Amortisation on intangible assets	77	59
Impairments	633	606
Fees payable to the external auditor *		
audit services- statutory audit	11	10
audit services- regulatory reporting (external auditor only)	1	1
other auditor remuneration (external auditor only)	6	8
Clinical negligence	568	522
Loss on disposal of non-current assets	11	18
Legal fees	48	47
Consultancy costs	248	235
Training, courses and conferences	175	180
Patient travel	29	26
Car parking & security	17	16
Redundancy	52	63
Early retirements	4	7
Hospitality	5	4
Publishing	2	2
Insurance	35	35
Other services, eg external payroll	83	85
Grossing up consortium arrangements	11	8
Losses, ex gratia & special payments	12	11
Other **	365	313
NHS charitable funds: Other resources expended	35	35
Total	43,452	40,862

* These are the audit fees disclosed by NHS foundation trusts and do not include the audit fee payable to the National Audit Office in respect of these consolidated accounts. This fee is accounted for within Monitor's own accounts which are presented separately to Parliament. This fee is £68,000 (2013/14: £68,000).

** In 2013/14 the analysis of operating expenditure did not include a category for the costs of purchasing social care from other organisations. A comparative figure is now presented which was previously presented within the category of 'Other'.

Note 5.2 Other auditors' remuneration

	2014/15 £m	2013/14 £m
Other remuneration paid to external auditors is made up as follows:		
1. Audit of accounts of any associate of the trust	-	-
2. Audit-related assurance services	1	1
3. Taxation compliance services	1	1
4. All taxation advisory services not falling within item 3 above	-	-
5. Internal audit services	-	-
6. All assurance services not falling within items 1 to 5	1	1
7. Corporate finance transaction services not falling within items 1 to 6 above	-	1
8. Other non-audit services not falling within items 2 to 7 above	3	4
Total	6	8

Note 5.3 Limitation on auditor's liability

Ninety eight (2013/14: ninety seven) NHS foundation trusts disclosed a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit in 2014/15 ranges between £0.5 million to £5 million (2013/14: £0.5 million to £5 million).

Note 6.1 Employee benefits

	Permanent £m	Other £m	2014/15 Total £m	2013/14 Total £m
Salaries and wages	21,144	725	21,869	20,852
Social security costs	1,656	27	1,683	1,618
Employer's contributions to NHS pensions	2,492	32	2,524	2,427
Pension cost - other	2	(1)	1	4
Other post employment benefits	-	-	-	-
Other employment benefits	1	-	1	-
Termination benefits	39	2	41	52
Agency/contract staff	-	1,848	1,848	1,396
NHS charitable funds staff	3	1	4	3
Total gross staff costs	25,337	2,634	27,971	26,352
Recoveries in respect of seconded staff	(55)	(15)	(70)	(64)
Total staff costs	25,282	2,619	27,901	26,288
Included within:				
Costs capitalised as part of assets	43	26	69	60

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

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

Note 6.2 Average number of employees (WTE basis)

	Permanent Number	Other Number	2014/15 Total Number	2013/14 Total Number
Medical and dental	58,116	7,648	65,764	61,257
Ambulance staff	10,962	99	11,061	10,618
Administration and estates	136,848	5,322	142,170	129,807
Healthcare assistants and other support staff	90,413	3,287	93,700	84,429
Nursing, midwifery and health visiting staff	218,256	7,396	225,652	208,318
Nursing, midwifery and health visiting learners	2,800	268	3,068	3,445
Scientific, therapeutic and technical staff	93,877	2,413	96,290	87,145
Social care staff	1,459	303	1,762	1,903
Agency and contract staff	-	20,111	20,111	16,156
Bank staff	1,239	15,747	16,986	13,838
Other	3,108	61	3,169	3,640
Total average numbers	617,078	62,655	679,733	620,556
Of which:				
Number of employees (WTE) engaged on capital projects	913	567	1,480	1,246

Note 6.3 Retirements due to ill-health

During 2014/15 there were 872 retirements on the grounds of ill-health (2013/14: 819). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £52 million (2013/14: £51 million).

Note 6.4 Reporting of compensation schemes - exit packages

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

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

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

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

2013/14	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
Exit package cost band (including any special payment element)			
<£10,000	375	621	996
£10,001 - £25,000	400	415	815
£25,001 - 50,000	327	340	667
£50,001 - £100,000	218	188	406
£100,001 - £150,000	68	33	101
£150,001 - £200,000	22	11	33
>£200,000	11	6	17
Total number of exit packages by type	1,421	1,614	3,035
Total resource cost (£m)	50	42	92

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

	2014/15		2013/14 restated*	
	Payments agreed Number	Total value of agreements £m	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	465	12	463	20
Mutually agreed resignations (MARS) contractual costs	559	14	686	15
Early retirements in the efficiency of the service contractual costs	38	1	13	1
Contractual payments in lieu of notice	476	4	422	4
Exit payments following employment tribunals or court orders	45	1	57	1
Non-contractual payments requiring HM Treasury approval**	41	1	47	1
Total	1,624	33	1,688	42

* Comparative analysis has been restated to correct errors in the number of payments disclosed by foundation trusts in 2013/14.

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

In 2014/15 non-contractual payments requiring HM Treasury approval include one payment made by Cambridge and Peterborough NHS Foundation Trust in excess of the individual's salary for £327,000. In 2013/14, there were two payments in excess of the individual's salary: one made by Central and North West London NHS Foundation Trust for £192,000 and one made by Camden and Islington NHS Foundation Trust for £45,000. These prior year payments have been restated to remove errors made by eight NHS foundation trusts in this disclosure in 2013/14.

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

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

Note 6.6 Staff sickness absence

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

	2014/15 Number	2013/14 Number
Total days lost	5,924,127	5,320,447
Total staff years	622,514	571,232
Average working days lost (per WTE)	9.5	9.3

Note 7 Pension costs

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

For 2014/15, the contribution rate was 14% (2013/14: 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 8 Impairment of assets

Under public sector accounting requirements, impairments are either charged to operating expenditure or the revaluation reserve. More detail is provided in accounting policy 1.6 and 1.7. Impairments reduce the value of assets. The note below provides detail about the reasons for impairments.

	Impairments £m	Reversals £m	2014/15 Net impairments £m	2013/14 Net impairments £m
Net impairments charged to operating surplus / deficit resulting from:				
Loss or damage from normal operations	5	(3)	2	9
Over specification of assets	2	(1)	1	36
Abandonment of assets in course of construction	7	-	7	3
Unforeseen obsolescence	16	-	16	4
Loss as a result of catastrophe	-	-	-	1
Changes in market price	366	(362)	4	228
Other	237	(22)	215	88
Total net impairments charged to operating surplus / deficit	633	(388)	245	369
Impairments charged to the revaluation reserve	318	(42)	276	215
Total net impairments	951	(430)	521	584

Note 9 Operating leases

Note 9.1 Operating lease income

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

	2014/15 £m	2013/14 £m
Operating lease revenue		
Minimum lease receipts	44	43
Contingent rent	5	2
Other	1	2
Total	50	47
	31 March 2015 £m	31 March 2014 £m
Future minimum lease receipts due:		
On leases of land expiring		
- not later than one year;	29	31
- later than one year and not later than five years;	74	78
- later than five years.	246	218
Total	349	327

Note 9.2 Operating lease expense

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

	2014/15 £m	2013/14 £m
Operating lease expense		
Minimum lease payments	356	333
Contingent rents	1	-
Less sublease payments received	(2)	(2)
Total	355	331
	31 March 2015 £m	31 March 2014 £m
Future minimum lease payments due:		
On leases of land expiring		
- not later than one year;	3	3
- later than one year and not later than five years;	6	6
- later than five years.	19	17
On leases of buildings expiring		
- not later than one year;	200	150
- later than one year and not later than five years;	355	311
- later than five years.	515	482
On other leases expiring		
- not later than one year;	108	102
- later than one year and not later than five years;	172	174
- later than five years.	14	17
Total	1,392	1,262
Future minimum sublease payments to be received	(4)	(8)

Note 10 Finance income

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

	2014/15	2013/14
	£m	£m
Interest on bank accounts	13	14
Interest on loans and receivables	2	2
NHS charitable funds investment income	8	7
Total	23	23

Note 11.1 Finance expenditure

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

	2014/15	2013/14
	£m	£m
Loans from the Independent Trust Financing Facility	54	43
Loans from the Department of Health	3	3
Commercial loans	5	-
Overdrafts	-	-
Finance leases	10	10
Interest on late payment of commercial debt	-	-
Main finance costs on PFI and LIFT schemes obligations	270	267
Contingent finance costs on PFI and LIFT scheme obligations	87	77
Other finance costs	1	2
Total finance expenditure - financial liabilities	430	402
Finance expense - unwinding of discount on provisions	6	5
Total finance expenditure	436	407

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

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

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

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

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.

Note 12 Discontinued operations

	2014/15	2013/14
	£m	£m
Operating income of discontinued operations	20	-
Operating expenses of discontinued operations	(24)	-
Total	(4)	-

Six NHS foundation trusts have reported discontinued operations in 2014/15 (2013/14: one for which operating income and expenditure is less than £0.5m in value). There are no gains/losses on disposal recorded in either year. These discontinued operations are not material to the consolidated NHS Foundation Trust accounts. These amounts have therefore not been shown separately on the face of the Statement of Comprehensive Income.

Note 13.1 Intangible assets - 2014/15

Valuation/gross cost at 1 April 2014 - brought forward **Valuation/gross cost at start of period for new FTs**

Transfers by absorption
Adjustments to prior period accounted for in-year
Additions
Impairments
Reversals of impairments
Reclassifications
Revaluations
Disposals / derecognition

Gross cost at 31 March 2015

	Software licences £m	Licences & trademarks £m	Internally generated information technology £m	Development expenditure £m	Other £m	Intangible assets under construction £m	Total £m
	448	5	68	24	3	71	619
	7	1	25	-	-	-	33
	(12)	-	-	-	-	-	(12)
	(5)	-	10	-	-	1	6
	68	1	8	4	-	83	164
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	61	-	10	6	-	(61)	16
	(1)	-	-	-	-	-	(1)
	(16)	-	(1)	(5)	-	-	(22)
	550	7	120	29	3	94	803

Amortisation at 1 April 2014 - brought forward **Amortisation at start of period for new FTs**

Transfers by absorption
Adjustments to prior period accounted for in-year
Provided during the year
Impairments
Reversals of impairments
Reclassifications
Revaluations
Disposals / derecognition

Amortisation at 31 March 2015

	255	4	34	10	-	-	303
	3	-	8	-	-	-	11
	(4)	-	-	-	-	-	(4)
	(5)	(1)	5	-	-	-	(1)
	54	1	18	4	-	-	77
	-	-	-	-	-	1	1
	-	-	-	-	-	-	-
	1	-	-	-	-	(1)	-
	-	-	-	-	-	-	-
	(15)	-	-	(4)	-	-	(19)
	289	4	65	10	-	-	368

Net book value at 31 March 2015

Net book value at 1 April 2014

	261	3	55	19	3	94	435
	193	1	34	14	3	71	316

Note 13.2 Intangible assets - 2013/14

Gross cost at 1 April 2013

Gross cost at start of period for new FTs

Transfers by absorption

Additions

Impairments

Reversals of impairments

Reclassifications

Revaluations

Disposals / derecognition

Valuation/gross cost at 31 March 2014

Amortisation at 1 April 2013

Amortisation at start of period for new FTs

Transfers by absorption

Provided during the year

Impairments

Reversals of impairments

Reclassifications

Revaluations

Disposals / derecognition

Amortisation at 31 March 2014

Net book value at 31 March 2014

Net book value at 1 April 2013

	Software licences £m	Licences & trademarks £m	Internally generated information technology £m	Development expenditure £m	Other £m	Intangible assets under construction £m	Total £m
Gross cost at 1 April 2013	349	4	69	17	3	48	490
Gross cost at start of period for new FTs	14	-	-	-	-	-	14
Transfers by absorption	10	-	-	-	-	(5)	5
Additions	48	1	7	2	1	59	118
Impairments	-	-	(4)	-	(1)	-	(5)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	42	-	3	5	1	(30)	21
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(15)	-	(7)	-	(1)	(1)	(24)
Valuation/gross cost at 31 March 2014	448	5	68	24	3	71	619
Amortisation at 1 April 2013	209	3	31	7	1	-	251
Amortisation at start of period for new FTs	8	-	-	-	-	-	8
Transfers by absorption	4	-	-	-	-	-	4
Provided during the year	43	1	11	4	-	-	59
Impairments	3	-	(1)	-	-	-	2
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	3	-	-	(1)	-	-	2
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(15)	-	(7)	-	(1)	-	(23)
Amortisation at 31 March 2014	255	4	34	10	-	-	303
Net book value at 31 March 2014	193	1	34	14	3	71	316
Net book value at 1 April 2013	140	1	38	10	2	48	239

Note 13.3 Intangible assets financing 2014/15

Net book value at 31 March 2015

Purchased										
Finance leased	255	3	55	19	2	92				426
Donated and government grant funded	3	-	-	-	-	-				3
	3	-	-	-	1	2				6
NBV total at 31 March 2015	261	3	55	19	3	94				435

Note 13.4 Intangible assets financing 2013/14

Net book value 31 March 2014

Purchased										
Finance leased	189	1	34	14	2	71				311
Donated and government grant funded	1	-	-	-	-	-				1
	2	-	-	-	1	1				4
NBV total at 31 March 2014	192	1	34	14	3	72				316

Note 14.1 Property, plant and equipment - 2014/15

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
Valuation/gross cost at 1 April 2014 - brought forward	3,400	18,940	250	923	4,441	234	1,477	341	9	30,015
Valuation/gross cost at start of period as FT	155	717	5	35	158	2	60	17	-	1,149
Transfers by absorption	58	118	2	(3)	6	-	9	-	-	190
Adjustments to prior period recorded in-year	(30)	(18)	(1)	(7)	-	-	(11)	-	-	(67)
Additions	62	510	5	961	291	10	145	16	-	2,000
Impairments	(99)	(557)	(9)	(19)	(7)	-	(5)	(1)	-	(697)
Reversals of impairments	17	294	1	-	-	-	-	-	-	312
Reclassifications	18	701	(2)	(949)	66	8	79	(4)	-	(83)
Revaluations	108	(355)	4	(1)	5	(3)	-	-	-	(242)
Transfers to/ from assets held for sale	(45)	(14)	(1)	-	-	-	-	-	-	(60)
Disposals / derecognition	(41)	(110)	(1)	(9)	(221)	(18)	(110)	(15)	-	(525)
Valuation/gross cost at 31 March 2015	3,603	20,226	253	931	4,739	233	1,644	354	9	31,992

Accumulated depreciation at 1 April 2014 - brought forward	58	2,017	26	5	2,910	141	983	219	2	6,361
Depreciation at start of period as FT	-	35	-	-	110	1	35	11	-	192
Transfers by absorption	-	41	2	-	13	-	8	-	-	64
Adjustments to prior period recorded in-year	(34)	(24)	(1)	-	-	-	(6)	-	-	(65)
Provided during the year	-	597	8	-	346	24	162	25	-	1,162
Impairments	31	209	-	2	(4)	-	-	(1)	-	237
Reversals of impairments	(2)	(115)	(1)	-	-	-	-	-	-	(118)
Reclassifications	-	(33)	(4)	(5)	(14)	-	(5)	(6)	-	(67)
Revaluations	(12)	(1,117)	(11)	(1)	3	(3)	-	-	-	(1,141)
Transfers to/ from assets held for sale	-	(1)	-	-	-	-	-	-	-	(1)
Disposals / derecognition	-	(99)	-	-	(214)	(17)	(108)	(15)	-	(453)

Accumulated depreciation at 31 March 2015	41	1,510	19	1	3,150	146	1,069	233	2	6,171
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Net book value at 31 March 2015	3,562	18,716	234	930	1,589	87	575	121	7	25,821
Net book value at 1 April 2014	3,342	16,923	224	918	1,531	93	494	122	7	23,654

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

Note 14.2 Property, plant and equipment - 2013/14

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
Valuation/gross cost at 1 April 2013	3,185	17,175	222	756	4,148	227	1,341	326	13	27,393
Valuation/gross cost at start of period as FT	66	341	11	11	82	-	17	4	-	532
Transfers by absorption	224	651	2	14	52	1	21	14	-	979
Additions	12	492	23	1,071	281	14	145	15	2	2,055
Impairments	(94)	(428)	(3)	(13)	(2)	-	(8)	(1)	-	(549)
Reversals of impairments	2	146	-	-	-	-	-	-	-	148
Reclassifications	3	691	(1)	(912)	80	16	72	7	(7)	(51)
Revaluations	(51)	(11)	(2)	-	-	-	-	-	-	(64)
Transfers to/ from assets held for sale	73	(82)	2	(3)	2	-	(1)	-	1	(8)
Disposals / derecognition	(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	52	1,807	23	6	2,678	138	922	210	2	5,838
Depreciation at start of period as FT	2	101	3	-	53	-	14	3	-	176
Transfers by absorption	-	38	-	-	21	-	4	4	-	67
Provided during the year	-	590	8	-	342	24	153	26	-	1,143
Impairments	35	241	1	5	3	2	3	-	-	290
Reversals of impairments	(1)	(117)	(1)	-	-	-	-	-	-	(119)
Reclassifications	-	(17)	-	(3)	2	-	(3)	(1)	-	(22)
Revaluations	(30)	(615)	(8)	(3)	2	-	(1)	-	-	(655)
Transfers to/ from assets held for sale	-	2	-	-	-	-	-	-	-	2
Disposals / derecognition	-	(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	3,133	15,368	199	750	1,470	89	419	116	11	21,555

Note 14.3 Property, plant and equipment financing - 2014/15

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

Note 14.4 Property, plant and equipment financing - 2013/14

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
Net book value at 31 March 2014										
Owned	3,161	12,278	184	876	1,298	90	477	109	7	18,480
Finance leased	53	93	17	-	60	2	10	1	-	236
On-SoFP 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

Note 15.1 Investments

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

	Investment property £m	Investments in associates (and joint arrangements) £m	Other investments £m
2013/14			
Carrying value at 1 April 2013	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	22	-	6
Reclassifications to/from PPE	10	-	-
Transfers to/from assets held for sale	(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

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

Note 15.2 Investment property income and 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.

	2014/15 £m	2013/14 £m
Investment property income	5	4
Direct operating expense arising from investment property which generated rental income in the period	(1)	(1)
Direct operating expense arising from investment property which did not generate rental income in the period	(1)	(1)
Total	3	2

Note 16 Inventories

	31 March 2015 £m	31 March 2014 £m
Drugs	187	164
Work in progress	1	1
Consumables	320	292
Energy	7	8
Inventories carried at fair value less costs to sell	4	4
Other	21	21
Total inventories	540	490

Inventories recognised in expenses for the year were £4,936m (2013/14: £4,497m). Write-down of inventories recognised as expenses for the year were £6m (2013/14: £4m)

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

Note 17.1 Trade receivables and other receivables

	31 March 2015 £m	31 March 2014 £m
Current		
Trade receivables due from NHS bodies and NHS charities	1,223	1,152
Other receivables due from related parties	135	151
Capital receivables	36	15
Provision for impaired receivables	(329)	(252)
Deposits and advances	2	2
Prepayments (non-PFI)	327	269
PFI prepayments: capital contributions	66	8
PFI prepayments: lifecycle replacements	32	23
Accrued income	439	344
Interest receivable	-	-
Finance lease receivables	-	-
PDC dividend receivable	13	17
VAT receivable	103	93
Other receivables	628	498
NHS charitable funds trade and other receivables	5	4
Total current trade and other receivables	2,680	2,324
Non-current		
Trade receivables due from NHS bodies and NHS charities	-	-
Other receivables due from related parties	20	12
Capital receivables	25	8
Provision for impaired receivables	(10)	(10)
Deposits and advances	-	-
Prepayments (non-PFI)	13	14
PFI prepayments: capital contributions	6	21
PFI prepayments: lifecycle replacements	128	122
Accrued income	9	8
Interest receivable	1	-
Finance lease receivables	1	1
Other receivables	73	62
Total non-current trade and other receivables	266	238

Note 17.2 Intra-government receivable balances

	Current 2014/15 £m	Non-current 2014/15 £m	Current 2013/14 £m	Non-current 2013/14 £m
Balances with the Department of Health and other NHS bodies	1,527	-	1,369	-
Balances with other central government bodies	151	1	124	5
Balances with local authorities	150	5	126	3
Balances with public corporations and trading funds	1	-	-	-
Subtotal: intra- government balances	1,829	6	1,619	8
Balances with bodies external to government	851	260	705	230
Total receivable at 31 March	2,680	266	2,324	238

Note 17.3 Provision for impairment of receivables

	2014/15 £m	2013/14 £m
At 1 April as previously stated	262	205
At start of period for new FTs	7	1
Transfers by absorption	6	-
Adjustments to prior period accounted for in-year	1	-
Increase in provision	139	119
Amounts utilised	(30)	(18)
Unused amounts reversed	(46)	(45)
At 31 March	339	262

Note 17.4 Analysis of impaired receivables

	31 March 2015		31 March 2014	
	Trade receivables £m	Other receivables £m	Trade receivables £m	Other receivables £m
Ageing of impaired receivables				
0 - 30 days	71	7	52	7
30-60 Days	11	2	11	2
60-90 days	15	2	12	2
90- 180 days	42	8	28	7
Over 180 days	146	62	113	49
Total	285	81	216	67
Ageing of non-impaired receivables past their due date				
0 - 30 days	492	120	487	93
30-60 Days	155	26	124	21
60-90 days	131	11	105	13
90- 180 days	131	23	87	18
Over 180 days	118	79	60	93
Total	1,027	259	863	238

Note 18 Other financial assets

	31 March 2015	31 March 2014 restated
	£m	£m
Current		
Loan and receivables	1	-
Deposits with the National Loans Fund	10	17
Other financial assets held by NHS charitable funds	2	3
Total	13	20
Non-current		
Loan and receivables	5	4
Other financial assets held by NHS charitable funds	-	-
Total	5	4

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

	Property, plant & equipment £m	Investment properties £m	2014/15 Total £m	2013/14 Total £m
NBV of non-current assets for sale and assets in disposal groups at 1 April	111	1	112	114
At start of period for new FTs	-	-	-	3
Transfers by absorption	-	-	-	4
Adjustments to prior period accounted for in-year	-	-	-	-
Plus assets classified as available for sale in the year	69	-	69	75
Less assets sold in year	(49)	(1)	(50)	(71)
Less impairment of assets held for sale	(16)	-	(16)	(5)
Plus reversal of impairment of assets held for sale	-	-	-	-
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(10)	-	(10)	(8)
NBV of non-current assets for sale and assets in disposal groups at 31 March	105	-	105	112

There were no liabilities in disposal groups as at 31 March 2015 (31 March 2014: nil).

Note 20.1 Cash and cash equivalents movements

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

	2014/15	2013/14 restated
	£m	£m
At 1 April	4,314	4,581
At start of period for new FTs	114	24
Transfers by absorption	36	-
Adjustments to prior period accounted for in-year	17	-
Net change in year	(396)	(291)
At 31 March	4,085	4,314
Broken down into:		
Cash at commercial banks and in hand	102	117
Cash with the Government Banking Service	3,244	3,554
Deposits with the National Loans Fund	633	531
Other current investments	-	11
NHS charitable funds cash and cash equivalents	106	101
Total cash and cash equivalents as in SoFP	4,085	4,314
Bank overdrafts (GBS and commercial banks)	-	(5)
Drawdown in committed facility	(10)	-
Total cash and cash equivalents as in SoCF	4,075	4,309

Note 20.2 Third party assets

The balance of third party assets, including patients' money held within the NHS foundation trusts' bank accounts at 31 March 2015 was £29 million (31 March 2014: £28 million). This has been excluded from the Statement of Financial Position as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

Note 21.1 Trade and other payables

	31 March 2015 £m	31 March 2014 £m
Current		
Receipts in advance	81	62
NHS trade payables	306	269
Amounts due to other related parties	226	221
Other trade payables	925	833
Capital payables	297	321
Social security costs	264	237
VAT payable	8	2
Other taxes payable	272	262
Other payables	481	453
Accruals	1,773	1,563
PDC dividend payable	11	5
NHS charitable funds trade and other payables	4	5
Total current trade and other payables	4,648	4,233
Non-current		
Receipts in advance	1	1
NHS trade payables	1	2
Amounts due to other related parties	3	3
Other trade payables	2	2
Capital payables	3	1
VAT payable	2	3
Other taxes payable	-	-
Other payables	11	9
Accruals	2	-
Total non-current trade and other payables	25	21

Note 21.2 Intra-government payable balances

	31 March 2015		31 March 2014	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Balances with the Department of Health and other NHS bodies	406	2	354	2
Balances with other central government bodies	840	2	800	3
Balances with local authorities	47	-	37	-
Balances with public corporations and trading funds	47	-	27	-
Subtotal: intra-government balances	1,340	4	1,218	5
Balances with bodies external to government	3,308	21	3,015	16
Total payables at 31 March	4,648	25	4,233	21

Note 21.3 Early retirements in NHS payables

Payables in note 21.1 include £2m to buy out the liability for early retirements over a period of 5 years (31 March 2014: £2m). These payables relate to 176 cases (31 March 2014: 165). As at 31 March 2015 payables also included £50m of outstanding pension contributions (31 March 2014: £46m).

Note 22 Other liabilities

	31 March 2015 £m	31 March 2014 £m
Current		
Deferred grants income	36	21
Other deferred income	493	464
Deferred PFI credits	1	1
Lease incentives	1	1
NHS charitable funds other liabilities	1	-
Total other current liabilities	532	487
Non-current		
Deferred grants income	8	10
Other deferred income	141	141
Deferred PFI credits	17	18
Lease incentives	10	11
Net pension scheme liability	16	11
Total other non-current liabilities	192	191

Note 23 Borrowings

	31 March 2015 £m	31 March 2014 £m
Current		
Bank overdrafts	-	5
Drawdown in committed facility	10	-
Loans from the Independent Trust Financing Facility	140	103
Loans from the Department of Health	27	14
Other loans	7	6
Obligations under finance leases	27	23
PFI lifecycle replacement received in advance	-	-
Obligations under PFI, LIFT or other service concession contracts (excl. lifecycle)	111	164
Total current borrowings	322	315
Non-current		
Loans from the Independent Trust Financing Facility	1,827	1,436
Loans from the Department of Health	272	75
Other loans	142	110
Obligations under finance leases	118	109
Obligations under PFI, LIFT or other service concession contracts	4,205	4,205
Total non-current borrowings	6,564	5,935

Note 24 Finance leases

Note 24.1 Finance lease receivables

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

	31 March 2015 £m	31 March 2014 £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)	(2)
Allowance for uncollectable lease payments	-	-
Net lease receivables	1	1
Of which those receivable:		
- not later than one year;	-	-
- later than one year and not later than five years;	-	-
- later than five years.	1	1
The unguaranteed residual value accruing to the lessor	2	2
Contingent rents recognised as income in the period	-	-

Note 24.2 Finance lease obligations

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

	31 March 2015 £m	31 March 2014 £m
Gross lease liabilities	227	222
Of which liabilities are due:		
- not later than one year;	36	30
- later than one year and not later than five years;	89	80
- later than five years.	102	112
Finance charges allocated to future periods	(82)	(90)
Net lease liabilities	145	132
Of which payable:		
- not later than one year;	27	23
- later than one year and not later than five years;	62	54
- later than five years.	56	55
Total of future minimum sublease payments to be received at the reporting date	-	2
Contingent rent recognised as an expense in the period	-	-

Note 25.1 Provisions for liabilities and charges

	31 March 2015		31 March 2014	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Pensions	16	170	15	152
Other legal claims	37	20	36	18
Agenda for Change	9	3	16	1
Restructurings	17	2	29	7
Continuing care	4	3	3	3
Equal pay	3	5	4	7
Redundancy	38	2	54	2
Other	153	116	210	103
Total	277	321	367	293

Note 25.2 Provisions for liabilities and charges analysis

	167	54	17	36	6	11	56	313	660
At 1 April 2014									
At start of period for new FTs	4	1	1	1	-	-	-	5	12
Transfers by absorption	5	-	-	-	-	-	-	2	7
Adjustments to prior period accounted for in-year	8	1	-	-	-	-	-	1	10
Change in the discount rate	4	-	-	-	-	-	-	2	6
Arising during the year	14	25	2	13	2	4	38	100	198
Utilised during the year	(17)	(12)	(2)	(15)	(1)	(1)	(25)	(85)	(158)
Reversed unused	(3)	(13)	(6)	(16)	-	(6)	(29)	(69)	(142)
Unwinding of discount	4	1	-	-	-	-	-	1	6
Movements on NHS charitable funds provisions	-	-	-	-	-	-	-	(1)	(1)
At 31 March 2015	186	57	12	19	7	8	40	269	598
Expected timing of cash flows:									
- not later than one year;	16	37	9	17	4	3	38	153	277
- later than one year and not later than five years;	71	9	3	1	3	5	2	51	145
- later than five years.	99	11	-	1	-	-	-	65	176
Total	186	57	12	19	7	8	40	269	598

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

Note 25.3 Clinical negligence liabilities

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

The consolidated total of this amount for NHS foundation trusts at 31 March 2015 is £6,070m (31 March 2014: £4,613m).

Note 26 Contingent assets and liabilities

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

	31 March 2015 £m	31 March 2014 restated £m
Value of contingent liabilities		
NHS Litigation Authority legal claims	(6)	(4)
Employment tribunal and other employee related litigation	(2)	(1)
Redundancy	-	-
Other	(8)	(8)
Gross value of contingent liabilities	(16)	(13)
Amounts recoverable against liabilities	2	2
Net value of contingent liabilities	(14)	(11)
Net value of contingent assets	2	3

A revised analysis of contingent liabilities has been presented in the current year with reanalysed comparative amounts. As a result of the reanalysis, a previous overstatement of gross contingent liabilities and recoverable amounts made by one trust has been corrected. There was no impact on the net contingent liability disclosed as a result of this correction.

Note 27 Contractual capital commitments

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

	31 March 2015 £m	31 March 2014 £m
Property, plant and equipment	729	671
Intangible assets	36	30
Total	765	701

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

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

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

	2014/15 £m	2013/14 £m
Present value of the defined benefit obligation at 1 April	(64)	(48)
Present value of the defined benefit obligation at start of period for new FTs	-	-
Transfers by normal absorption	-	(1)
Current service cost	(2)	(14)
Interest cost	(3)	(2)
Contribution by plan participants	(1)	(1)
Remeasurement of the net defined benefit (liability) / asset:		
- Actuarial (gains)/losses	(11)	1
Benefits paid	1	1
Past service costs	-	-
Present value of the defined benefit obligation at 31 March	(80)	(64)
Plan assets at fair value at 1 April	53	40
Plan assets at fair value at start of period for new FTs	-	-
Transfers by normal absorption	-	1
Interest income	3	12
Remeasurement of the net defined benefit (liability) / asset		
- Return on plan assets	1	-
- Actuarial gains/(losses)	4	-
- Changes in the effect of limiting a net defined benefit asset to the asset ceiling	-	-
Contributions by the employer	3	1
Contributions by the plan participants	1	1
Benefits paid	(1)	(1)
Plan assets at fair value at 31 March	64	54
Plan deficit at 31 March	(16)	(10)

Note 28.2 Amounts recognised in the SoCI

	2014/15 £m	2013/14 £m
Current service cost	(2)	(14)
Interest (expense) / income	-	10
Past service cost	-	-
Total net charge recognised in SOCI	(2)	(4)

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

Note 29.1 Imputed finance lease obligations

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

	31 March 2015 £m	31 March 2014 £m
Gross PFI, LIFT or other service concession liabilities	9,185	9,134
Of which liabilities are due		
- not later than one year;	385	512
- later than one year and not later than five years;	1,494	1,381
- later than five years.	7,306	7,241
Finance charges allocated to future periods	(4,869)	(4,765)
Net PFI, LIFT or other service concession arrangement obligation	4,316	4,369
- not later than one year;	111	164
- later than one year and not later than five years;	456	430
- later than five years.	3,749	3,775

Note 29.2 Payments committed in respect of the service element

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 2015 £m	31 March 2014 £m
Charge in respect of the service element of the PFI, LIFT or other service concession arrangement for the period	397	367
Commitments in respect of the service element of the PFI, LIFT or other service concession arrangement:		
- not later than one year;	418	394
- later than one year and not later than five years;	1,757	1,655
- later than five years.	10,264	10,583
Total	12,439	12,632

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

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

	31 March 2015 £m	31 March 2014 £m
Charge in respect of the off SoFP PFI, LIFT or other service concession arrangement for the period	7	7
Commitments in respect of off-SoFP PFI, LIFT or other service concession arrangements:		
- not later than one year;	7	7
- later than one year and not later than five years;	5	10
- later than five years.	9	8
Total	21	25

Details of individual schemes are disclosed in the annual accounts of individual NHS foundation trusts.

Note 31 Financial instruments

Note 31.1 Financial assets

	Loans and receivables £m	Assets held at fair value through the I&E £m	Available-for- sale £m	Total £m
Assets as per SoFP as at 31 March 2015				
Embedded derivatives	-	-	-	-
Trade and other receivables excluding non financial assets	2,448	-	-	2,448
Other investments	4	-	-	4
Other financial assets	25	-	-	25
Cash and cash equivalents at bank and in hand	3,971	-	-	3,971
NHS charitable funds financial assets	144	95	23	262
Total at 31 March 2015	6,592	95	23	6,710

	Loans and receivables £m	Assets held at fair value through the I&E £m	Available-for- sale £m	Total £m
Assets as per SoFP as 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

There were no financial assets held to maturity as at 31 March 2015 (31 March 2014: nil).

Note 31.2 Financial liabilities

	31 March 2015 £m	31 March 2014 £m
Financial liabilities		
Borrowings excluding finance lease and PFI liabilities	2,425	1,748
Obligations under finance leases	146	136
Obligations under PFI, LIFT and other service concession contracts	4,316	4,369
Trade and other payables excluding non financial liabilities	4,176	3,484
Other financial liabilities	96	286
Provisions under contract	327	378
NHS charitable funds financial liabilities	4	5
Total financial liabilities	11,490	10,406

There were no financial liabilities held at fair value through income and expenditure at 31 March 2015 (31 March 2014: nil).

Note 31.3 Financial risk management

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

Liquidity risk

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

Under section 63 of the National Health Service Act 2006, NHS foundation trusts are required to carry out their functions effectively, efficiently and economically and under their licence conditions, they are required to have systems and processes in place to ensure they comply with that duty and to ensure they are able to continue as a going concern as defined by generally accepted accounting practice. 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 21 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 (2013/14: 13). 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 1.08% of total income from activities generated in the year to 31 March 2015 (2013/14: 1.10%). Other sources of income from non-public sector bodies amount to a small proportion of total foundation trust income. Accordingly, the effective credit risk posed by income derived from private and overseas patients or non-public sector entities to the sector is low. Within cash and cash equivalents, £3.9 million is held with the Government Banking Service and National Loans Fund. Individual foundation trusts have confirmed that they do not consider these deposits to be exposed to significant credit risk.

The maximum exposures as at 31 March 2015 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 31.4 Fair values of financial assets at 31 March 2015

	Book value £m	Fair value £m
Non-current trade and other receivables excluding non financial assets	117	114
Other investments	15	15
Other	330	330
NHS charitable funds non-current financial assets	35	36
Total	497	495

Note 31.5 Fair values of financial liabilities at 31 March 2015

	Book value £m	Fair value £m
Non-current trade and other payables excluding non financial liabilities	36	35
Provisions under contract	158	154
Loans	2,181	2,129
Other	1,727	1,642
Total	4,102	3,960

Note 32 Analysis of NHS charitable funds reserves

	31 March 2015 £m	31 March 2014 £m
Restricted funds:		
Endowment funds	138	128
Other restricted income funds	65	56
Unrestricted funds:		
Unrestricted income funds	157	150
Revaluation reserve	3	2
Other reserves	2	3
Total	365	339

55 NHS foundation trusts consolidate NHS charitable funds where the trust determines they have control (2013/14: 53) as outlined in accounting policy 1.1.

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

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

Note 33 Losses and special payments

The operating expenditure of NHS foundation trusts includes £29 million of losses and £12 million of special payments.

	2014/15		2013/14	
	Total number of cases Number	Total value of cases £m	Total number of cases Number	Total value of cases £m
Losses				
Cash losses	23,550	1	20,960	1
Fruitless payments	308	1	220	-
Bad debts and claims abandoned	22,514	19	24,171	17
Stores losses and damage to property	5,153	8	5,148	5
Total losses	51,525	29	50,499	23
Special payments				
Extra-contractual payments	1	-	9	1
Extra-statutory and extra-regulatory payments	13	-	8	-
Compensation payments	381	2	400	2
Special severance payments	41	1	108	2
Ex-gratia payments	5,548	9	5,611	10
Total special payments	5,984	12	6,136	15
Total losses and special payments	57,509	41	56,635	38
Compensation payments received		-		-

HM Treasury requires additional disclosure of losses or special payments individually in excess of £0.3 million. In 2014/15 three individual losses and one special payment were reported in excess of £0.3 million. Peterborough and Stamford Hospitals NHS Foundation Trust recorded £1.6 million written off under a deferred payment plan in relation to demolition costs for Peterborough District Hospital site. East Kent Hospitals University NHS Foundation Trust recorded £1.5 million for two losses regarding stock write-offs. Cambridgeshire and Peterborough NHS Foundation Trust recorded a £0.3 million special payment in relation to a final settlement with an ex-employee. In 2013/14 one individual loss was reported in excess of £0.3 million in relation to Heart of England NHS Foundation Trust for a debt written off for £2.3 million.

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

Note 34 Transfers by absorption

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

Modification in 2013/14 only

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 were 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. This policy did not apply in 2014/15. More details are provided in accounting policy 1.1.

Transactions accounted for under normal absorption accounting: 2014/15

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

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

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

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

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

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

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

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	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
	£m	£m	£m	£m	£m	£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 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 was fewer.

Summary of 1 April 2013 PCT/SHA transfers to NHS foundation trusts	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets
	£m	£m	£m	£m	£m
Total assets and liabilities transferred to NHS foundation trusts	741	7	(13)	(30)	705

Further details on individual transactions can be found in the Consolidated NHS Foundation Trust Accounts 2013/14.

Note 35 Related parties

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

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

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

	Receivables		Payables	
	31 March 2015 £m	31 March 2014 £m	31 March 2015 £m	31 March 2014 £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	(1)	-	-	-
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year at 31 March	-	-	-	-
Value of balances with other related parties at 31 March				
Department of Health and other NHS bodies	1,826	1,579	849	751
NHS charitable funds	10	17	1	1
Subsidiaries / Associates / Joint Ventures	12	4	9	2
Other	344	123	436	417
NHS Shared Business Services	-	70	1	15
Total	2,191	1,793	1,296	1,186

	Income		Expenditure	
	2014/15 £m	2013/14 £m	2014/15 £m	2013/14 £m
Value of transactions with board members	-	-	12	12
Value of transactions with key staff members	-	-	-	-
Value of transactions with other related parties				
Department of Health and other NHS bodies	40,985	38,428	2,371	2,112
NHS charitable funds	60	67	4	5
Subsidiaries / Associates / Joint Ventures	31	33	72	52
Other	753	755	2,184	1,946
NHS Shared Business Services	-	395	6	21
Total	41,829	39,678	4,649	4,148

Note 36 Prior period adjustments

Sector-wide changes in accounting policy

In 2014/15, there have been no changes in accounting policy requiring sector-wide restatement of comparatives. The application of IFRS 10 and the removal of the option to account for interests in joint ventures using the proportionate consolidation method has not resulted in restatement by any NHS Foundation Trusts.

Other prior period adjustments applied by NHS foundation trusts

Other prior period adjustments in the 2014/15 consolidated NHS foundation trust accounts would arise from NHS foundation trusts in their individual 2014/15 accounts correcting, restating or reclassifying 2013/14 or opening figures.

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

Restatement of disclosures

Operating income from patient care activities (notes 3.1 and 3.2)

Four prior year figures have been restated in note 3.1 and note 3.2 to reflect a £3 million correction in the classification of income relating to treating patients from overseas made by one NHS foundation trust.

Purchase of social care (note 5.1)

In 2014/15 the costs of purchasing social care from other organisations is separately disclosed within the analysis of operating expenditure in Note 5.1. For comparability a comparative has been disclosed which was previously recorded in the category of other expenditure.

Non-contractual compensation payments exceeding annual salary (note 6.5)

The comparative analysis in this note has been restated to correct errors in the number of payments disclosed by foundation trusts in 2013/14.

In addition eight NHS foundation trusts have restated the disclosure of non-contractual payments that exceed 12 months' salary due to errors in their prior year disclosures.

Deposits held with the National Loans Fund (notes 18 and 20.1)

In 2014/15 deposits held with the National Loans Fund have been separately disclosed within cash and cash equivalents in note 20.1 and other financial assets in note 18. Comparatives in these notes have been reanalysed to separately disclose the comparative balances.

Contingent assets and liabilities (note 26)

A revised analysis of contingent liabilities has been presented in the current year with reanalysed comparative amounts. In addition, a previous overstatement of gross contingent liabilities and recoverable amounts made by one trust has been corrected. There was no impact on the net contingent liability disclosed as a result of this correction.

Note 37 Events after the reporting date

As at 31 March 2015 there were 151 NHS foundation trusts (150 licensed to provide NHS funded healthcare). On 1 May 2015 Bradford District Care NHS Trust was authorised by Monitor as a foundation trust.

In accordance with the requirements of IAS 10 events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

