

Monitor

Independent Regulator  
of NHS Foundation Trusts

# NHS Foundation Trusts:

Consolidated Accounts 2011/12



Monitor - Independent Regulator of NHS Foundation Trusts

**NHS Foundation Trusts: Consolidated Accounts 2011/12**  
**1 April 2011 - 31 March 2012**

Presented to Parliament pursuant to Schedule 8, paragraph 11(5)(a) of the National Health Service Act 2006.

Ordered by the House of Commons to be printed 12 July 2012.

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ISBN: 9780102978421

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID P002499018 07/12

Printed on paper containing 75% recycled fibre content minimum.

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Publication code: IRREP 04/12

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## Foreword

Monitor, the Independent Regulator of NHS Foundation Trusts, 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 This act was largely repealed on 1 March 2007 and re-enacted on that date in a consolidating act, the National Health Service Act 2006 (the Act).

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

Paragraph 11(3) of Schedule 8 to the Act requires Monitor to prepare a report which provides an overall summary of the accounts of NHS foundation trusts, lay this before Parliament and send a copy to the Secretary of State for Health. There is no specification as to the nature of this summary and no requirement for an audit of this summary. However, in order to ensure the transparency and accuracy of our report, we have prepared a full consolidation of the accounts of NHS foundation trusts and have requested the Comptroller and Auditor General to audit the consolidated accounts presented in this report. As far as Monitor's accounting officer, Dr David Bennett, is aware, there is no relevant audit information of which the entity's auditors are unaware. The accounting officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

The accounts presented in this report have been prepared from a consolidation of the audited accounts submitted by the 143 individual NHS foundation trusts which were authorised by Monitor prior to 31 March 2012. The dates of authorisation of these and periods of inclusion in the consolidated accounts are as follows:

Authorised on or prior to 1 April 2010 and consolidated for the year ended 31 March 2011 and the year ended 31 March 2012:

- 2gether NHS Foundation Trust
- 5 Boroughs Partnership NHS Foundation Trust
- Aintree University Hospitals NHS Foundation Trust
- Alder Hey Children's 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 (formerly Sandwell Mental Health and Social Care NHS Foundation Trust prior to April 2011)
- Blackpool Teaching Hospitals NHS Foundation Trust (formerly Blackpool, Fylde and Wyre Hospitals NHS Foundation Trust prior to December 2010)
- Bolton NHS Foundation Trust
- Bradford Teaching Hospitals NHS Foundation Trust
- Burton Hospitals NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Calderstones Partnership NHS Foundation Trust
- Cambridge University Hospitals NHS Foundation Trust
- Cambridgeshire and Peterborough NHS Foundation Trust
- Camden and Islington NHS Foundation Trust
- Central and North West London NHS Foundation Trust
- Central Manchester University Hospitals NHS Foundation Trust
- Chelsea and Westminster Hospital NHS Foundation Trust
- Cheshire and Wirral Partnership NHS Foundation Trust
- Chesterfield Royal Hospital NHS Foundation Trust
- City Hospitals Sunderland NHS Foundation Trust
- Colchester Hospital University NHS Foundation Trust
- Cornwall Partnership NHS Foundation Trust

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

- Royal Bolton Hospital NHS Foundation Trust
- Royal Brompton & Harefield NHS Foundation Trust
- Royal Devon and Exeter NHS Foundation Trust
- Royal National Hospital for Rheumatic Diseases NHS Foundation Trust
- Royal Surrey County Hospital NHS Foundation Trust
- Salford Royal NHS Foundation Trust
- Salisbury NHS Foundation Trust
- Sheffield Children's NHS Foundation Trust
- Sheffield Health & Social Care NHS Foundation Trust
- Sheffield Teaching Hospitals NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Somerset Partnership NHS Foundation Trust
- South Devon Healthcare NHS Foundation Trust
- South 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
- Southend University Hospital NHS Foundation Trust
- Southern Health NHS Foundation Trust
- Stockport NHS Foundation Trust
- Surrey and Borders Partnership NHS Foundation Trust
- Sussex Partnership NHS Foundation Trust
- Tameside Hospital NHS Foundation Trust
- Taunton and Somerset NHS Foundation Trust
- Tavistock and Portman NHS Foundation Trust
- Tees, Esk and Wear Valleys NHS Foundation Trust
- The Christie NHS Foundation Trust
- The Clatterbridge Cancer Centre NHS Foundation Trust (formerly Clatterbridge Centre for Oncology NHS Foundation Trust prior to April 2012)
- The Dudley Group NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals 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
- Warrington and Halton Hospitals NHS Foundation Trust
- Wirral University Teaching Hospital NHS Foundation Trust
- Wrightington, Wigan and Leigh NHS Foundation Trust
- Yeovil District Hospital NHS Foundation Trust
- York Teaching Hospital NHS Foundation Trust (formerly York Hospitals NHS Foundation Trust prior to August 2010)

Authorised on 1 June 2010 and consolidated for the ten month period ended 31 March 2011 and the year ended 31 March 2012:

- Airedale NHS Foundation Trust

Authorised on 1 October 2010 and consolidated for the six month period ended 31 March 2011 and the year ended 31 March 2012:

- University Hospitals of Morecambe Bay NHS Foundation Trust

Authorised on 1 December 2010 and consolidated for the four month period ended 31 March 2011 and the year ended 31 March 2012:

- Ashford and St Peter's Hospitals NHS Foundation Trust

Authorised on 1 February 2011 and consolidated for the two month period ended 31 March 2011 and the year ended 31 March 2012:

- Derbyshire Healthcare NHS Foundation Trust
- The Queen Elizabeth Hospital, Kings Lynn, NHS Foundation Trust

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

- South East Coast Ambulance Service NHS Foundation Trust
- South Western Ambulance Service NHS Foundation Trust

Authorised on 1 April 2011 and consolidated for the twelve month period ended 31 March 2012:

- The Hillingdon Hospitals NHS Foundation Trust

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

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

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

- University Hospital Southampton NHS Foundation Trust

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

- North East Ambulance Service NHS Foundation Trust

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

- West Suffolk NHS Foundation Trust

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

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



## Review of NHS foundation trust financial performance 2011/12

### Overview

The NHS foundation trust sector has delivered a surplus before impairments for the year ended 31 March 2012 of £437 million (2010/11: £393 million) and held cash of £3.9 billion as at 31 March 2012 (2010/11: £3.3 billion), an increase of £0.6 billion.

In 2011/12 the NHS foundation trust sector faced an increasingly challenging operating environment, with tariff deflation of 1.5% on average and increasing cost pressures (caused by increasing demands for services and inflationary pressures), creating significant efficiency challenge for trusts. This challenging operating environment and the impact of TCS transactions, which transferred at very low margins, led to a further squeeze on operating margins in the year, with EBITDA reduced from 6.8% to 6.2%. The increase in surplus for the year and increased levels of cash therefore reflect a level of resilience within the sector to the financial pressures it faces.

The table below shows the profile of NHS foundation trusts that make up the sector at 31 March 2012:

	Acute	Mental health	Ambulance	Specialist	Total
<b>Number of trusts</b>	80	41	4	18	143
<b>% of sector turnover</b>	71%	22%	1%	6%	100%
<b>EBITDA margin</b>	6.1%	5.5%	8.8%	8.9%	6.2%
<b>Surplus (pre-impairment)</b>	£163m	£169m	£8m	£97m	£437m

The results for the year show that 85% of NHS foundation trusts generated a surplus for the year before charges for impairments (122 out of 143 NHS foundation trusts). However, 21 NHS foundation trusts generated operating deficits before impairments which totalled £130 million. The largest individual deficit was £46 million at Peterborough and Stamford Hospitals NHS Foundation Trust which faces financial challenge from significant Private Finance Initiative (PFI) commitments. Four NHS foundation trusts, including Peterborough and Stamford Hospitals NHS Foundation Trust, have received Public Dividend Capital (PDC) support from the Department of Health during 2011/12 while they develop long term plans to return themselves to financial stability. In terms of financial risk ratings, Monitor's measure of financial risk, the sector had the following risk profile (where 5 represents the lowest risk and 1 represents the highest risk):

Financial Risk Rating	At 31 March 2012		At 31 March 2011	
	Number of trusts	% of sector	Number of trusts	% of sector
5	12	8	13	10
4	52	37	58	43
3	69	48	55	40
2	7	5	7	5
1	3	2	3	2
	<b>143</b>		<b>136</b>	

The increased financial pressure in the sector has led to a reduction in the proportion of NHS foundation trusts with the lower financial risk ratings of 4 and 5 (from 53% at the end of 2010/11 to 45% at the end of 2011/12). However, the proportions of NHS foundation trusts with the highest risk ratings of 1 and 2 has not shown a deterioration but has remained broadly consistent (7% at the end of 2011/12 against 7% in the prior year).

In 2011/12 the sector completed 77 material Transforming Community Services (TCS) transactions, which accounted for c£2.6 billion (c7.0%) of NHS foundation trust sector revenue for 2011/12. The 77 material TCS transactions are set out in note 36 to the consolidated accounts. Community services had previously been provided by PCTs. As TCS transactions are within the Whole of Government Accounts boundary and constitute a machinery of government change they have been accounted for using merger accounting principles in the 2011/12 consolidated financial statements. The Financial Reporting Advisory Board (FRAB) agreed to an exemption from applying merger accounting to the 2010/11 comparatives for TCS transactions that were completed in 2011/12, and therefore they are not included in the comparative performance information for 2010/11.

2011/12 has seen a reduced impact from new Private Finance Initiative (PFI) schemes. In 2011/12 three significant PFI schemes became operational with a total value of £196 million, this compares with seven new schemes in 2010/11 with a total value of £1.1 billion. As a consequence PFI schemes have had less of an impact on impairments, capital additions and borrowing than in prior years.

## Operating performance

### *Operating income*

In the year to 31 March 2012, 143 NHS foundation trusts generated total revenues of £35.9 billion, an increase of £5.2 billion (17%) compared with the previous year. A significant driver of this increase was revenue from the TCS transactions which accounted for additional revenue of c£2.6 billion, or 50% of the increase. Approximately 29% of the increase was driven by the impact of seven new NHS foundation trusts having been authorised during the year (£0.7 billion) and the full year impact of the seven NHS foundation trusts authorised during 2010/11 (£0.8 billion). The rest of the increase in operating income c£1.1 billion (21%) was driven by increased activity.

### *EBITDA*

In aggregate, EBITDA (earnings before interest, tax, depreciation and amortisation and excluding impairments) as a proportion of turnover, which is a proxy for overall operating efficiency, decreased from 6.8% in 2010/11 to 6.2% in 2011/12. The decline in margin is predominantly driven by two factors, firstly, the impact of an increasingly challenging operating environment and secondly, the impact of c£2.6 billion of TCS activity being taken on by the sector. Community service activity typically generates low EBITDA margin. Therefore, this low margin activity has a dilutive impact on the overall margin for the sector.

The EBITDA margin decline was more pronounced in the mental health sector which saw a 1 percentage point fall. This was largely due to the dilutive impact of TCS transactions as approximately half of the TCS transactions occurred in this relatively small sector (mental health trusts accounted for £8 billion of the sectors £35.9 billion turnover). The impact on margins in acute NHS foundation trusts was less dilutive as the income from the TCS transactions was relatively small in comparison with the total acute turnover.

<b>EBITDA margins</b>	<b>2011/12</b>	<b>2010/11</b>
Acute	6.1%	6.4%
Mental health	5.5%	6.5%

### *Surplus before impairment and other comprehensive income*

The total surplus before impairment was £437 million, which as a percentage of operating income for all NHS foundation trusts was 1.2% (2010/11: £393 million, 1.3%). The acute sector margin was significantly lower than the overall margin at 0.6% (2010/11: 0.7%). The margin for mental health, ambulance and specialist foundation trusts was 2.1%, 2.3% and 4.2% respectively (2010/11: 2.1%, 4.0% and 4.9%).

### *Impact of impairments*

In 2011/12 property, plant and equipment was impaired by £607 million (net) a reduction against the 2010/11 figure of £1,018 million, primarily driven by lower impairments on PFI schemes. In 2010/11 impairments included £532 million relating to three new significant PFI schemes. In 2011/12 impairments mainly related to revaluations to reflect changes in market price. Only Salford Royal NHS Foundation Trust and University Hospitals Birmingham NHS Foundation Trust had significant impairments from new PFIs in the year (which together totalled £56 million).

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

In the year, NHS foundation trusts generated a total surplus after impairments of £76 million, an improvement of £471 million compared with the £395 million deficit in 2010/11.

### *Total comprehensive income for the year*

The total comprehensive income was £119 million compared with a total comprehensive expense of £301 million in 2010/11. The reduction in the deficit is driven by the improved operating surplus before impairments (driven by new NHS foundation trusts in the year, the full year effect of new NHS foundation trusts authorised in 2010/11 and increased activity) and lower impairments in 2011/12 than in 2010/11.

### **Net finance costs**

Net finance costs increased by £47 million in the year, from £732 million in 2010/11 to £779 million in 2011/12. This increase is driven by an increase of £36 million in finance costs relating to PFI obligations (2011/12: £317 million; 2010/11: £281 million). The effective interest rate on PFI obligations has increased from 6.6% in 2010/11 to 7.2% in 2011/12. In addition there has been an £8 million increase in interest payments on Foundation Trust Financing Facility loans (2011/12: £29 million; 2010/11: £21 million) and an £8 million increase in public dividend capital dividends.

### **Cash balances and borrowing**

Total cash balances amounted to £3.9 billion as at 31 March 2012 (2010/11: £3.3 billion), an increase of £0.6 billion. The increase is driven by increased cash flow from operations of £158 million largely as a result of the increased operating surplus pre-impairments for the year of £87 million. There has been very little net movement in working capital during the year (£4 million). The number of receivables days at 12.0 days (2010/11: 13.5 days) and payables days at 38.9 days (2010/11: 39.2 days) remained reasonably consistent between years. Cash has also benefited from £226 million less spent on property, plant and equipment than in 2010/11. Of the total cash balance, £3.8 billion was held with the Government Banking Service at the year end.

Total long term and working capital borrowing at 31 March 2012 was £5.5 billion (2010/11: £5.2 billion), which compares with the aggregate prudential borrowing limit for all NHS foundation trusts of £11.8 billion (2010/11: £10.9 billion). Of the £5.5 billion long term and working capital borrowing, £4.4 billion relates to PFI (2010/11: £4.3 billion), £1.0 billion to loans (2010/11: £0.8 billion) and £125 million relates to obligations under financial leases (2010/11: £102 million). The principal driver for the increase in borrowing is three significant PFI schemes which have become operational during the year. The prudential borrowing limit is set at the beginning of the year by Monitor for each NHS foundation trust in accordance with the Prudential Borrowing Code, and represents the maximum that each trust may borrow.

### **Capital expenditure**

Total gross capital expenditure in the year added £1.6 billion (2010/11: £2.6 billion) to the netbook value of property, plant and equipment, which was offset in part by receipts from the sale of assets which amounted to £75 million (2010/11: £83 million). The decrease in capital expenditure on property, plant and equipment of £1 billion compared with the previous year was primarily driven by the reduction in significant PFI schemes that completed in the year (2011/12: 3; 2010/11: 7).

NHS foundation trusts continue to invest in their estates at levels significantly in excess of the depreciation charges in the year. Depreciation charges in 2011/12 were £977 million (2010/11: £903 million).

### **Looking forward**

In 2011/12 the NHS foundation trust sector began to feel the squeeze in finances with reducing margins as a result of TCS transactions, average reductions in tariff of 1.5% and significant upward pressure on costs.

The impact of reducing margins across the sector is of most concern, as this is a measure of financial performance and the sector's ability to renew sustainably its asset base in the medium term.

In 2012/13 the sector will continue to face upward cost pressures against a backdrop of tariff deflation which will create a significant productivity challenge. To meet this challenge and deliver stable financial performance the NHS Foundation Trusts will need to implement and deliver efficiency programmes on an even more ambitious scale next year. To ensure quality standards are maintained or improved, it will be important for trusts to look at new ways of working and new ways of delivering services as they seek to address these challenges.

Finally, 2011/12 saw the merger of Norfolk and Waveney NHS foundation trust with Suffolk Mental Health Partnership NHS trust and Hampshire Hospitals NHS foundation trust's acquisition of the net assets of Winchester and Eastleigh Healthcare NHS Trust. Following this trend we expect an increased number of business cases for potential mergers and acquisitions in 2012/13.

Dr David Bennett  
Chair and Interim Chief Executive  
3 July 2012

## Statement of responsibilities and accountability framework

Dr David Bennett is the Chair and Interim Chief Executive and Accounting Officer of Monitor. In this capacity, under paragraph 11(3) of Schedule 8 to the National Health Service Act 2006, he is responsible for ensuring that Monitor prepares a report which provides an overall summary of the accounts of NHS foundation trusts to lay before Parliament. He is not the Accounting Officer for each individual NHS foundation trust; this is the role of each NHS foundation trust's Chief Executive, designated as Accounting Officer by the National Health Service Act 2006. Monitor is responsible for determining, with the approval of HM Treasury, the form of accounts that each NHS foundation trust must adopt. This is described within the *NHS Foundation Trust Annual Reporting Manual (FT ARM)*, which is based on HM Treasury's *Financial Reporting Manual (FReM)*. The manual specifically requires:

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

In discharging its responsibilities under paragraph 11(3) of Schedule 8 to the National Health Service Act 2006, Monitor has prepared a consolidated account on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with International Financial Reporting Standards (IFRS), as amended for NHS foundation trusts by the FReM and the FT ARM.

## Annual Governance Statement

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

### Scope of responsibility

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

### The purpose of the system of internal control

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

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

- the appointment of the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to undertake a review of the quality of the work of these auditors and consideration of their findings;
- the appointment of the Comptroller and Auditor General to undertake an audit of the consolidated accounts presented in this report; and
- consideration by Monitor's management and Audit & Risk Committee of the consolidated accounts and the processes established to derive them.

Each NHS foundation trust's annual report and accounts, which they lay before Parliament, includes an Annual Governance Statement for the year ended 31 March 2012. These statements confirmed that there were no significant control issues within NHS foundation trusts except for those listed in the remainder of this consolidated statement. Each individual annual governance statement explains how the Accounting Officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues, where the risk cannot be effectively controlled.

## Overview of internal control systems within NHS foundation trusts

### *Risk environment*

Individual NHS foundation trusts generally reported continued improvement in their internal control systems during 2011/12, with continued focus on further development of internal control systems including:

- further development of a risk-based approach to the identification and early rectification of potential problems through, for example, improved risk management, formation of governance and risk management committees and appointment of new risk management positions within the trust;
- further improvements to information governance systems through, for example, revision of policies and procedures and further use of encryption to safeguard information;
- system improvements to contribute to the achievement of key health care targets including MRSA and other infection control year-on-year reductions, cancer, and A&E and other waiting times;
- undertaking internal and external risk assessments to identify improvements in governance arrangements; and
- improving systems and processes to ensure data quality.

### *Governance*

NHS foundation trusts are assigned a quarterly governance risk rating on a scale from 'green' to 'red', the latter being the rating of greatest concern. Risk ratings are also updated in 'real time' to reflect, for example, a decision to find a trust in significant breach of its terms of authorisation or the Care Quality Commission's regulatory actions.

Over the course of 2011/12, the quarterly governance risk ratings assigned to NHS foundation trusts were as follows:

<b>Governance risk rating</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Green	54	56	63	73
Amber-green	25	34	19	29
Amber-red	42	31	40	21
Red	16	17	19	20
<b>Total</b>	<b>137</b>	<b>138</b>	<b>141</b>	<b>143</b>

The proportion of NHS foundation trusts that were rated red and amber-red decreased from 41% at quarter three to 30% at quarter four.

## Financial

Monitor's financial risk rating (FRR) for a foundation trust reflects the likelihood of a financial breach of the terms of authorisation. A rating of 5 reflects the lowest level of financial risk and a rating of 1 the greatest. Over the course of 2011/12, the FRRs assigned to NHS foundation trusts were as follows:

Financial risk rating	Q1	Q2	Q3	Q4
5	10	11	13	12
4	44	46	48	52
3	67	67	69	69
2	10	8	6	7
1	6	6	5	3
<b>Total</b>	<b>137</b>	<b>138</b>	<b>141</b>	<b>143</b>

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

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

During 2011/12 Monitor's Board:

- found ten NHS foundation trusts in significant breach of their terms of authorisation:
  1. Medway NHS Foundation Trust;
  2. Peterborough and Stamford Hospitals NHS Foundation Trust;
  3. University Hospitals of Morecambe Bay NHS Foundation Trust;
  4. Burton Hospitals NHS Foundation Trust;
  5. James Paget University Hospitals NHS Foundation Trust;
  6. Southend University Hospitals NHS Foundation Trust;
  7. Derby Hospitals NHS Foundation Trust;
  8. Queen Elizabeth Hospitals King's Lynn NHS Foundation Trust;
  9. Wirral University Teaching Hospital NHS Foundation Trust; and
  10. Cambridgeshire and Peterborough NHS Foundation Trust.
- continued to keep under review seven NHS foundation trusts which were in significant breach of their terms of authorisation throughout 2011/12:
  1. Mid Staffordshire NHS Foundation Trust;
  2. Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
  3. Gloucestershire Hospitals NHS Foundation Trust;
  4. Basildon and Thurrock University Hospitals NHS Foundation Trust;
  5. Milton Keynes Hospital NHS Foundation Trust;
  6. Blackpool Teaching Hospitals NHS Foundation Trust; and
  7. Tameside Hospital NHS Foundation Trust.

Since 1 April 2012, Bolton NHS Foundation Trust and the Royal National Hospital for Rheumatic Diseases NHS Foundation Trust have been found in significant breach of their terms of authorisation.

Once an NHS foundation trust is in significant breach of its terms of authorisation, Monitor meets with the trust board regularly to ensure it develops a credible recovery plan and that actions against the plan are closely monitored. In the case of financial concerns, Monitor requires the trust to report its financial position on a monthly basis.

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

During 2011/12, two NHS foundation trusts were removed from significant breach of their terms of authorisation, as a result of demonstrable improvements:

1. Dorset County Hospital NHS Foundation Trust; and
2. Poole Hospital NHS Foundation Trust.

Since year end, Blackpool Teaching Hospitals NHS Foundation Trust has also been removed from significant breach of its terms of authorisation.

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

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

The following internal control weaknesses were disclosed by NHS foundation trusts in their individual annual governance statements and in their annual reports and accounts. The reported control weaknesses generally reflect Monitor's regulatory position for those NHS foundation trusts in significant breach of their terms of authorisation. However, there is one trust, Lincolnshire Partnership NHS Foundation Trust, which is not in significant breach of its terms of authorisation that has highlighted an internal controls weakness. The annual report and accounts of this trust highlight a material fraud at the trust during 2011/12.

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

#### *Use of resources*

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

Fourteen NHS foundation trusts received qualified audit certificates from their external auditors for the year ended 31 March 2012 where the auditors were not satisfied that the trust has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources:

- Basildon and Thurrock University Hospitals NHS Foundation Trust – this relates to the intervention by Monitor in November 2009 following a significant breach of the terms of authorisation as a result of serious concerns around patient safety and experience. The trust remained in significant breach during 2011/12.
- Blackpool Teaching Hospitals NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in November 2010 as a result of a deterioration of the trust's financial performance and weak board governance. Since being found in significant breach the trust has undertaken several steps to address its financial issues and governance failings which led to the trust delivering against its financial plan, an improved cash position and a strengthening of board governance. The trust was de-escalated from significant breach on 24 May 2012. However, as a result of the trust remaining in significant breach throughout 2011/12 the auditors issued a qualified audit certificate as they were not able to satisfy themselves on the trust's use of resources.
- Derby Hospitals NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in January 2012 based on its financial performance and challenges it is facing to improve its position during the next 12 months. There are ongoing concerns about poor financial performance and future plans to address this, particularly around board scrutiny of financial plans and performance.
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in July 2009 due to the trust facing considerable financial challenge, both now and in the future, which indicates the existence of material uncertainty which may, in the view of the auditor, cast significant doubt on its ability to continue as a going concern.



- Kettering General Hospital NHS Foundation Trust – this is because during 2011/12 the trust did not have a Board Assurance Framework in place which should summarise the risks of the trusts and be submitted to the Board of Directors on a quarterly basis. Therefore, in the view of the auditor, the trust Board did not have effective oversight of the key risks facing the trust and resultant deployment of resources to mitigate these risks. To address this situation a Board Assurance Framework Policy was presented to the Board at a meeting in April 2012 and will be presented to the Board on a quarterly basis going forward.
- Lincolnshire Partnership NHS Foundation Trust – this concern relates to a material fraud which occurred during the year amounting to £1.3 million. The impact of this loss is to divert funds away from their intended use, thereby affecting the independent auditor's opinion on the use of public monies. In light of the fraud the trust's Head of Internal Audit has reviewed the systems of internal control to ensure they remain effective..
- Medway NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in April 2011 due to the trust returning an unplanned financial risk rating of 2 at quarter three 2010/11 and concerns about the adequacy of arrangements for board level scrutiny and assurance processes for financial planning and performance.
- Mid Staffordshire NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in March 2009. There are ongoing concerns about (i) the need to further strengthen the governance arrangements in the trust and (ii) the considerable financial challenge both now and in the future, which, in the view of the auditor, indicate the existence of a material uncertainty which may, in the view of the auditor, cast doubt on its ability to continue as a going concern.
- Peterborough and Stamford Hospitals NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in October 2011 due to concerns about the considerable financial challenge it faces and the board oversight of financial planning. There is a need to further strengthen governance arrangements in the trust and the current financial position indicates, in the view of the auditor, the existence of a material uncertainty which may cast doubt on its ability to continue as a going concern.
- Poole Hospital NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in July 2010 due to concerns surrounding its financial performance and general governance duty. Since then it has substantially improved its financial position, addressed its governance issues, and an independent review concluded the trust has stronger leadership at board level and Non-Executive Directors are providing more effective challenge. The trust was de-escalated from significant breach in January 2012. However as a result of the trust remaining in breach for the first 9 months of the year the auditors issued a qualified audit certificate as they were not able to satisfy themselves on the trust's use of resources.
- Royal National Hospital For Rheumatic Diseases NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in May 2012 as a result of the trust facing significant structural challenges in 2011/12 resulting in financial problems, many of which are beyond its immediate control.
- Tameside Hospital NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in February 2011 for financial concerns. Although the trust has made progress against its financial recovery plan, there remain ongoing concerns, in the view of the auditor, that the trust may not have adequate arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust – this relates to Monitor finding the trust in significant breach in January 2012 due to the trust missing its financial targets and issues with financial governance. The trust has experienced financial problems over the last year stemming from an ongoing failure to plan effectively and to address underlying performance issues.
- University Hospitals of Morecambe Bay NHS Foundation Trust – this relates to Monitor finding the trust in significant breach and consequent intervention in October 2011 due to underlying problems in maternity services. Monitor's continued concerns about overall

governance led to a second intervention in February 2012 to strengthen the leadership of the trust.

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

However, although the audit opinions are 'unqualified' there are four trusts (Heatherwood and Wexham Park Hospitals NHS Foundation Trust; Mid Staffordshire NHS Foundation Trust; Peterborough and Stamford Hospitals NHS Foundation Trust; and Royal National Hospital for Rheumatic Diseases NHS Foundation Trust) where the auditors have included an emphasis of matter paragraph within the audit opinion which disclosed going concern. These are set out in note 1 of the accounts.

Three trusts (Heatherwood and Wexham Park Hospitals NHS Foundation Trust; Mid Staffordshire NHS Foundation Trust; and Peterborough and Stamford Hospitals NHS Foundation Trust) have received public dividend capital (PDC) from the Department of Health in 2011/12 and will continue to need funding in 2012/13 while they develop long term plans to return themselves to financial sustainability. The Health and Social Care Act 2012 extends the provisions for Trust Special Administration (TSA) to NHS foundation trusts. TSA is a regime for ensuring the continuity of essential services in the event of provider failure or financial distress. We expect TSA to be commenced during 2013. TSA could be used to address trusts such as these which are not able to achieve financial stability.

Milton Keynes Hospital NHS Foundation Trust also received PDC in 2011/12 as part of an agreed recovery plan. The Department of Health committed up to £9 million as part of that plan.

#### *Financial standing*

The Accounting Officers of seven of the NHS foundation trusts have disclosed significant control issues relating to financial standing for 2011/12 within the NHS foundation trusts' individual Annual Governance Statements:

- Bolton NHS Foundation Trust – the trust identified a lapse in financial control when it became apparent in April 2012 that the trust would not achieve its planned surplus. External assurance has been commissioned to understand this unexpected variation from plan. Subsequent to the balance sheet date the Trust Board has identified a risk in relation to its cash position. The trust is currently working through this and has interim arrangements in place with its Strategic Health Authority and local Clinical Commissioning Group.
- Burton Hospitals NHS Foundation Trust – the trust identified perceived gaps in its control which have been reported as part of its ongoing monitoring arrangements. Control issues resulted in three financial concerns: (i) failure to deliver its year on year service and cost improvement recovery plans, (ii) inability to secure and retain an adequate working capital loan facility and (iii) failure to improve the trust's liquidity position to ensure obligations of staff and suppliers are met.
- Cambridge University Hospitals NHS Foundation Trust – the trust reported that it did not succeed in identifying the required savings it needed to achieve a balanced budget and meet its targeted financial risk rating. The trust reported that it was called by Monitor to a formal escalation meeting in September 2011 to determine if it was in significant breach of its terms of authorisation and that following the submission of a financial recovery plan and an action plan to address concerns regarding financial performance and governance, Monitor determined that the trust was not in significant breach of its terms of authorisation.
- Heatherwood and Wexham Park Hospitals NHS Foundation Trust – the trust identified in its report that it has been in breach of its terms of authorisation since July 2009 as a result of a rapid decline in its financial and operational performance. The trust has remained in breach throughout 2011/12 and this has resulted in the trust operating with a financial risk rating of '1' and a 'Red' governance risk rating throughout the year. The trust has established a Finance and Business Development Committee to provide the board with additional insight into and assurance of the financial stability of the trust and is also developing a strategic recovery plan.

- Medway NHS Foundation Trust – the trust reported that as a result of a negative variance from forecast surplus in the 2010/11 year, Monitor placed the trust in significant breach of its terms of authorisation in April 2011 and this still remains the case. The trust has retained a red rating for governance risk and will do so until Monitor is assured that the trust is returning to full sustainable compliance with its authorisation. As a result of actions taken the trust has significantly improved its financial position for 2011/12 against the prior year and therefore achieved an improved financial risk rating at the end of 2011/12.
- Mid Staffordshire NHS Foundation Trust – the trust reported two areas of significant weakness: (i) internal audit identified a number of areas where the trust's systems of internal control need further improvement and (ii) the requirement for ongoing financial support due to the financial challenges of the trust. The trust is implementing actions to address these weaknesses.
- Peterborough and Stamford Hospitals NHS Foundation Trust – the trust reported that Monitor found it in significant breach in October 2011 due to significant control weakness relating to the ongoing financial viability of the trust and the resulting actions required to develop and implement turnaround plans and a strengthening of internal controls.

### Quality governance

NHS foundation trusts were required to report on their quality governance arrangements in their annual governance statements for the first time in 2011/12. Trusts were advised to refer to Monitor's *Quality Governance Framework* for guidance on good practice in quality governance. Quality governance is the combination of structures and processes at and below board level to lead on trust-wide quality performance including:

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

Individual NHS foundation trusts generally reported good practice and improvement in quality governance arrangements during 2011/12, including:

- introduction of real time quality and patient experience dashboards;
- improvement of patient complaints procedures; and
- development of additional quality metrics and new patient safety strategies.

### Quality reports

In 2011/12 NHS foundation trusts were required to obtain a limited assurance report from their external auditor on the content of their quality report and two mandated indicators to be included in the annual report. This reported on whether anything has come to the attention of the auditor that lead them to believe that the content of the quality report was not prepared inline with the requirements set out in the NHS Foundation Trust Annual Reporting Manual 2011/12 and is not inconsistent with the other information sources detailed in the guidance.

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

- Cambridge and Peterborough NHS Foundation Trust – the auditors were unable to form a conclusion on the Care Programme Approach (CPA) follow-up and Gate-keeping indicators.
- Cheshire and Wirral Partnership NHS Foundation Trust – the auditor issued an adverse conclusion as in their opinion CPA follow-ups had not been prepared in all material respects in accordance with the criteria.
- South London and Maudsley NHS Foundation Trust – the auditor issued a qualified conclusion in respect of access to the crisis resolution indicator as there was limited evidence to provide a sufficient audit trail for this indicator.

## **Private patient income cap**

All 143 NHS foundation trusts have disclosed compliance against their cap in 2011/12.

## **Information governance**

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

- losses and thefts of laptop computers containing patient information;
- losses of computer memory sticks containing patient information;
- losses of paper medical records;
- accidental destruction of paper documents; and
- unauthorised disclosure of confidential patient information.

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

- Alder Hey Children's NHS Foundation Trust
- Basildon & Thurrock University Hospitals NHS Foundation Trust
- Calderdale and Huddersfield NHS Foundation Trust
- Frimley Park Hospital NHS Foundation Trust
- Great Ormond Street Hospital for Children NHS Foundation Trust
- Lincolnshire Partnership NHS Foundation Trust
- Northumbria Healthcare NHS Foundation Trust
- Papworth Hospital NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Royal Bolton Hospital NHS Foundation Trust
- Sheffield Children's NHS Foundation Trust
- South West Yorkshire Partnership NHS foundation trust
- Southend University Hospital NHS Foundation Trust
- Surrey and Borders Partnership NHS Foundation Trust
- Sussex Partnership NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals NHS Foundation Trust

In all of the reported cases, NHS foundation trusts have stated that they have taken the appropriate disciplinary action, prepared and implemented action plans and continue to monitor risks.

Dr David Bennett  
Chair and Interim Chief Executive  
3 July 2012

## **Independent auditor's report to the Independent Regulator of NHS Foundation Trusts (Monitor)**

I have audited the consolidated financial statements of NHS foundation trusts for the year ended 31 March 2012. These comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

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

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

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS foundation trust sector as at 31 March 2012 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006.

### **Opinion on other matters**

In my opinion:

- the information given within the Annual Review, which comprises the 'Review of NHS foundation trust financial performance 2011/12', for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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

6 July 2012

## Consolidated Statement of Comprehensive Income

	Note	2011/12		2010/11 restated	
		Before impairments £m	Impairments £m	Before impairments £m	Impairments £m
Operating Income					After impairments £m
Operating Expenses	3,4	35,789	139	30,671	30,743
<b>Operating surplus / (deficit)</b>	6	(34,576)	(500)	(29,545)	(30,405)
<b>Finance costs</b>		<b>1,213</b>	<b>(361)</b>	<b>1,126</b>	<b>338</b>
Finance income	11	29		26	26
Finance expense - financial liabilities	12	(357)		(316)	(316)
Finance expense - unwinding of discount on provisions	25.2	(6)		(5)	(5)
PDC Dividends payable		(445)		(437)	(437)
<b>Net finance costs</b>		<b>(779)</b>		<b>(732)</b>	<b>(732)</b>
Share of Profit / (Loss) of Associates/Joint Ventures accounted for using the equity method		3		(1)	(1)
Corporation tax expense		0		0	0
<b>Surplus/(deficit) for the year</b>		<b>437</b>	<b>(361)</b>	<b>393</b>	<b>(395)</b>
<b>Other comprehensive income</b>					
Net impairments charged to reserves			(265)		(238)
Revaluations		307		331	331
Asset disposals		0		(1)	(1)
Movements arising from classifying non current assets as assets held for sale		1		0	0
Other recognised gains and losses		2		0	0
Actuarial gains/(losses) on defined benefit pension schemes		(3)		4	4
Other reserve movements		1		(2)	(2)
<b>Total other comprehensive income</b>		<b>308</b>	<b>(265)</b>	<b>332</b>	<b>94</b>
<b>Total comprehensive income / (expense) for the period</b>		<b>745</b>	<b>(626)</b>	<b>725</b>	<b>(301)</b>

Prior year comparatives have been restated to take account of prior period adjustments as set out in note 35.

The notes on pages 25 to 73 form part of these accounts.

# Consolidated Statement of Financial Position

Year ended 31 March

		31 March 2012	31 March 2011 restated	1 April 2010 restated
	Note	£m	£m	£m
<b>Non-current assets</b>				
Intangible assets	13	198	164	135
Property, plant and equipment	14	21,308	20,099	18,433
Investment Property	15	59	47	41
Investments in associates (and jointly controlled operations)	15	7	2	0
Other Investments	15	0	0	0
Trade and other receivables	19	218	195	176
Other Financial assets	20	4	0	0
Other assets		4	5	35
<b>Total non-current assets</b>		<b>21,798</b>	<b>20,512</b>	<b>18,820</b>
<b>Current assets</b>				
Inventories	18	438	400	367
Trade and other receivables	19	1,455	1,317	1,390
Other financial assets	20	44	38	34
Non-current assets for sale and assets in disposal groups	21	116	80	63
Cash and cash equivalents	22	3,947	3,258	2,880
<b>Total current assets</b>		<b>6,000</b>	<b>5,093</b>	<b>4,734</b>
<b>Current liabilities</b>				
Trade and other payables	23	(3,458)	(2,916)	(2,693)
Borrowings	24	(214)	(179)	(166)
Other financial liabilities		(1)	(2)	(4)
Provisions	25	(282)	(215)	(137)
Other Liabilities	26	(554)	(531)	(429)
<b>Total current liabilities</b>		<b>(4,509)</b>	<b>(3,843)</b>	<b>(3,429)</b>
<b>Total assets less current liabilities</b>		<b>23,289</b>	<b>21,762</b>	<b>20,125</b>
<b>Non-current liabilities</b>				
Trade and other payables	23	(30)	(26)	(26)
Borrowings	24	(5,347)	(5,003)	(3,728)
Other financial liabilities		(2)	(3)	(3)
Provisions	25	(259)	(248)	(225)
Other liabilities	26	(154)	(143)	(134)
<b>Total non-current liabilities</b>		<b>(5,792)</b>	<b>(5,423)</b>	<b>(4,116)</b>
<b>Total assets employed</b>		<b>17,497</b>	<b>16,339</b>	<b>16,009</b>
<b>Financed by (taxpayers' equity)</b>				
Public Dividend Capital		12,324	11,672	11,210
Revaluation reserve		4,249	4,169	4,063
Donated Asset Reserve		0	0	0
Other reserves		84	81	72
Merger reserve		1	0	(1)
Income and expenditure reserve		839	417	665
<b>Total taxpayers' equity</b>		<b>17,497</b>	<b>16,339</b>	<b>16,009</b>

Prior year comparatives have been restated to take account of prior period adjustments as set out in note 35.

The notes on pages 25 to 73 form part of these accounts.

Dr David Bennett  
Chair and Interim Chief Executive  
3 July 2012

## Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2012

	Public Dividend Capital £m	Revaluation Reserve £m	Donated Assets Reserve £m	Other Reserves £m	Merger Reserve £m	Income and Expenditure Reserve £m	Total £m
<b>Taxpayers' Equity at 1 April 2011</b>	11,672	4,169	0	81	0	410	16,332
Prior period adjustment	0	0	0	0	0	7	7
<b>Taxpayers' Equity at 1 April 2011 - restated (pre TCS adjustments) *</b>	11,672	4,169	0	81	0	417	16,339
TCS and merger adjustments	0	0	0	0	0	9	9
<b>Taxpayers' Equity at 1 April 2011 - restated</b>	11,672	4,169	0	81	0	426	16,348
<b>At start of period for new FTs</b>	549	130	0	3	0	245	927
Surplus/(deficit) for the year	0	0	0	0	0	76	76
Transfers between reserves	0	(42)	0	0	0	42	0
Impairments	0	(265)	0	0	0	0	(265)
Revaluations - property, plant and equipment	0	307	0	0	0	0	307
Revaluations - intangible assets	0	0	0	0	0	0	0
Asset disposals	0	(34)	0	0	0	34	0
Movement arising from classifying non current assets as Assets Held for Sale	0	0	0	0	0	1	1
Other recognised gains and losses	0	(1)	0	0	0	3	2
Actuarial gains/(losses) on defined benefit pension schemes	0	0	0	0	0	(3)	(3)
Public Dividend Capital received	104	0	0	0	0	0	104
Public Dividend Capital repaid	(1)	0	0	0	0	0	(1)
Public Dividend Capital written off	0	0	0	0	0	0	0
Other reserve movements	0	(15)	0	0	1	15	1
<b>Taxpayers' Equity at 31 March 2012</b>	12,324	4,249	0	84	1	839	17,497

\* As set out in note 36, 31 March 2011 comparatives have not been restated for Transforming Community Services (TCS) transactions occurring in 2011/12. It is therefore this line which is consistent with the Statement of Financial Position.



## Consolidated Statement of Changes in Taxpayers' Equity

Year ended 31 March 2011

	Public Dividend Capital £m	Revaluation Reserve £m	Donated Assets Reserve £m	Other Reserves £m	Merger Reserve £m	Income and Expenditure Reserve £m	Total £m
<b>Taxpayers' Equity at 1 April 2010</b>	<b>11,184</b>	<b>3,856</b>	<b>742</b>	<b>72</b>	<b>0</b>	<b>75</b>	<b>15,929</b>
Prior period adjustment	26	207	(742)	0	(1)	590	80
<b>Taxpayers' Equity at 1 April 2010 - restated</b>	<b>11,210</b>	<b>4,063</b>	<b>0</b>	<b>72</b>	<b>(1)</b>	<b>665</b>	<b>16,009</b>
<b>At start of period for new FTs</b>	<b>425</b>	<b>145</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>10</b>	<b>588</b>
Surplus/(deficit) for the year	0	0	0	0	0	(395)	(395)
Transfers between reserves	0	(16)	0	0	0	15	(1)
Impairments	0	(238)	0	0	0	0	(238)
Revaluations - property, plant and equipment	0	330	0	0	0	0	330
Revaluations - intangible assets	0	1	0	0	0	0	1
Asset disposals	0	(31)	0	0	0	30	(1)
Movements arising from classifying non current assets as Assets Held for Sale	0	0	0	0	0	0	0
Other recognised gains and losses	0	(9)	0	0	0	9	0
Actuarial gains/(losses) on defined benefit pension schemes	0	0	0	1	0	3	4
Public Dividend Capital received	43	0	0	0	0	0	43
Public Dividend Capital repaid	(6)	0	0	0	0	0	(6)
Public Dividend Capital written off	0	0	0	0	0	0	0
Other reserve movements	0	(76)	0	0	1	73	(2)
<b>Taxpayers' Equity at 31 March 2011</b>	<b>11,672</b>	<b>4,169</b>	<b>0</b>	<b>81</b>	<b>0</b>	<b>410</b>	<b>16,332</b>

Prior period adjustments made to the 31 March 2011 balances have been reflected in the Statement of Financial Position, as disclosed in the first table of the Consolidated Statement of Changes in Taxpayers' Equity.

Prior year comparatives have been restated to take account of prior period adjustments as set out in note 35. The notes on pages 25 to 73 form part of these accounts.

The restated 2010/11 Statement of Changes in Taxpayers' Equity includes a material prior period adjustment at 1 April 2010. This relates to the change in accounting policy for donated assets and government grants, together with immaterial adjustments in underlying NHS foundation trust accounts.

The change in accounting policy for donated assets and government grants is material and so a third column has been added to the Consolidated Statement of Financial Position as at 1 April 2010, in line with International Accounting Standard 1. This requirement also extends to any related notes, and so a third column is also added to note 26, other liabilities.

Further information on prior period adjustments is set out in note 35.

### **Information on reserves**

#### Public Dividend Capital

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

#### Revaluation Reserve

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

#### Donated Assets Reserve

The value of this reserve has been restated to nil as at 1 April 2010 as a result of the change in accounting policy for donated assets. The new policy is set out in note 1 to the consolidated financial statements.

#### Other Reserves

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

#### Merger Reserve

This reserve reflects balances formed on merger of NHS bodies.

#### Income and Expenditure Reserve

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

## Consolidated Statement of Cash Flows

	2011/12	2010/11 restated
	£m	£m
<b>Cash flows from operating activities</b>		
Operating surplus/(deficit) from continuing operations	852	338
<b>Operating surplus/(deficit)</b>	<b>852</b>	<b>338</b>
<b>Non-cash income and expense</b>		
Depreciation and amortisation	1,019	935
Impairments	500	860
Reversals of impairments	(139)	(72)
Transfer from the donated asset reserve	0	0
Interest accrued and not paid	1	0
Dividends accrued and not paid or received	2	1
(Increase)/Decrease in Trade and Other Receivables	(42)	96
(Increase)/Decrease in Other Assets	9	1
(Increase)/Decrease in Inventories	(11)	(21)
Increase/(Decrease) in Trade and Other Payables	383	143
Increase/(Decrease) in Other Liabilities	(8)	116
Increase/(Decrease) in Provisions	57	73
Tax (paid) / received	0	9
Other movements in operating cash flows	(22)	(34)
<b>NET CASH GENERATED FROM/(USED IN) OPERATIONS</b>	<b>2,601</b>	<b>2,445</b>
<b>Cash flows from investing activities</b>		
Interest received	27	21
Purchase of financial assets	(1,162)	(1,141)
Sales of financial assets	1,154	1,136
Purchase of intangible assets	(57)	(53)
Purchase of Property, Plant and Equipment	(1,385)	(1,611)
Sales of Property, Plant and Equipment	75	83
Cash from (disposals) of business units and subsidiaries	1	0
<b>Net cash generated from/(used in) investing activities</b>	<b>(1,347)</b>	<b>(1,565)</b>
<b>Cash flows from financing activities</b>		
Public dividend capital received	104	43
Public dividend capital repaid	(1)	(6)
Loans received from the Department of Health	218	300
Other loans received	30	22
Loans repaid to the Department of Health	(46)	(39)
Other loans repaid	(4)	(3)
Capital element of finance lease rental payments	(19)	(15)
Other capital receipts	6	0
Capital element of Private Finance Initiative Obligations	(87)	(96)
Interest paid	(30)	(22)
Interest element of finance lease	(8)	(8)
Interest element of Private Finance Initiative obligations	(310)	(275)
PDC Dividend paid	(456)	(425)
Cash flows from (used in) other financing activities	(3)	(15)
<b>Net cash generated from/(used in) financing activities</b>	<b>(606)</b>	<b>(539)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>648</b>	<b>341</b>
<b>Cash and Cash equivalents at 1 April</b>	<b>3,234</b>	<b>2,821</b>
<b>Cash and Cash equivalents at start of period for new FTs</b>	<b>52</b>	<b>72</b>
<b>Cash and Cash equivalents at 31 March</b>	<b>3,934</b>	<b>3,234</b>

Prior year comparatives have been restated to take account of prior period adjustments as set out in note 35. The notes on pages 25 to 73 form part of these accounts.

## Notes to the accounts

### Note 1 Accounting policies and other information

Paragraph 11(3) of Schedule 8 of the National Health Service Act 2006 requires Monitor to provide an overall summary of the accounts of NHS foundation trusts. Monitor has chosen to produce a consolidated account of NHS foundation trusts prepared on the accounting requirements in the *NHS Foundation Trust Annual Reporting Manual* (FT ARM).

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

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

#### 1.1 Consolidation

##### Basis of consolidation

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

Monitor is required under the National Health Service Act 2006, to summarise 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 another entity within the Whole of Government Accounts boundary (including other NHS foundation trusts and NHS trusts) this represents a 'machinery of government change.' The FT ARM states that these transactions fall within the 'Group Reconstruction' provisions of IFRS 3 and as a result are excluded from the scope of that standard. There is no IFRS standard that otherwise deals with accounting for group reconstructions and, as such, the FT ARM has followed the IAS 8 hierarchy to the selection of accounting policies and adopted merger accounting principles similar to those in FRS 6. This is in line with the FReM. Merger accounting is applied to such transactions and prior year comparatives are restated accordingly.

As set out in note 36, prior year comparatives have not been restated for Transforming Community Services transactions occurring in 2011/12.

##### Subsidiaries

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

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

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

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

### **Associates**

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

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

### **Joint ventures**

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

Joint ventures are accounted for using the equity method. Joint ventures classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

### **Joint operations**

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

## **1.2 Income**

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

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

## **1.3 Expenditure on employee benefits**

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

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

### **Pension costs**

#### *NHS Pension Scheme*

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

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

#### *Local Government Superannuation Scheme*

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

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

Actuarial gains and losses during the year are recognised in the pensions reserve and reported in the Statement of Comprehensive Income as an item under 'other comprehensive income'.

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

#### *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 Superannuation Scheme. Where the NHS foundation trust is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). Otherwise, these are accounted for as defined contribution pension schemes ('off Statement of Financial Position').

All schemes are defined benefit pension schemes and these are listed below. For further details please refer to the individual NHS foundation trust accounts.

<b>Trust</b>	<b>Pension Scheme</b>	<b>Accounting treatment in financial statements</b>
Black Country Partnership NHS Foundation Trust	West Midlands Metropolitan Authorities Pension Fund	On Statement of Financial Position
Camden and Islington NHS Foundation Trust	London Borough of Islington Pension Scheme	Off Statement of Financial Position
Great Western Hospitals NHS Foundation Trust	Wiltshire Pension Fund	On Statement of Financial Position
Southern Health NHS Foundation Trust	Hampshire Pension Fund	On Statement of Financial Position
Hertfordshire Partnership NHS Foundation Trust	Hertfordshire Local Government Pension Scheme	Off Statement of Financial Position
Lincolnshire Partnership NHS Foundation Trust	Lincolnshire Pension Fund	On Statement of Financial Position
Oxford Health NHS Foundation Trust	Buckinghamshire County Council Pension Scheme	On Statement of Financial Position
Rotherham Doncaster and South Humber NHS Foundation Trust	South Yorkshire Local Government Pension Scheme	On Statement of Financial Position
South Staffordshire and Shropshire Healthcare NHS Foundation Trust	South Staffordshire Local Government Pension Scheme	On Statement of Financial Position
Sheffield Health and Social Care NHS Foundation Trust	South Yorkshire Pensions Scheme	On Statement of Financial Position
South Essex Partnership NHS Foundation Trust	Bedfordshire Pension Fund	On Statement of Financial Position
Tavistock and Portman NHS Foundation Trust	Teachers' Pension Scheme (England & Wales)	Off Statement of Financial Position

## 1.4 Expenditure on other goods and services

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

## 1.5 Property, plant and equipment

### Recognition

Property, plant and equipment is capitalised where:

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

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

### Measurement

#### Valuation

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

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

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

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

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

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

Net Book Value	Land	Buildings excluding dwellings	Dwellings
	£m	£m	£m
Modern Equivalent Asset (no Alternative Site)	1,942	10,502	137
Modern Equivalent Asset (Alternative Site)	800	3,751	29
Other Professional Valuations	343	1,034	37
<b>Total</b>	<b>3,085</b>	<b>15,287</b>	<b>203</b>

### **Subsequent expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised.

### **Depreciation**

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

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

### **Revaluation gains and losses**

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

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

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

### **Impairments**

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

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

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

### **De-recognition**

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

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

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



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

### **Donated assets**

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

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

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

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

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

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

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

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

	<b>Min Life Years</b>	<b>Max Life Years</b>
Land	1	161
Buildings, excluding dwellings	1	188
Dwellings	1	108
Assets under construction	1	90
Plant & machinery	1	80
Transport equipment	1	21
Information technology	1	20
Furniture & fittings	1	50

## **1.6 Intangible assets**

### **Recognition**

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

### **Internally generated intangible assets**

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

Expenditure on research is not capitalised.

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

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

### Software

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

### Measurement

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

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

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

### Amortisation

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

### Useful economic life of intangible assets

	Min life (years)	Max life Years
<b>Intangible assets - internally generated</b>		
Information technology	1	10
Development expenditure	1	99
Other	3	10
<b>Intangible assets - purchased</b>		
Software	1	20
Licences & trademarks	1	15
Patents	2	10
Other	1	10
Goodwill	3	10

## 1.7 Investment properties

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

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

## 1.8 Government grants

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

## 1.9 Inventories

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

## 1.10 Financial instruments and financial liabilities

### Recognition

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

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

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

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

### De-recognition

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

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

### Classification and measurement

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

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

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

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

Assets and liabilities in this category are classified as current assets and current liabilities. These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in the Statement of 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 debtors'; 'accrued income'; and 'other debtors'.

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

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

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

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

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

### **Financial liabilities**

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

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

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

### **Determination of fair value**

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

### **Impairment of financial assets**

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

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

### **1.11 Cash and cash equivalents**

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

### **1.12 Leases**

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

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

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

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

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

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

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

### **1.13 Provisions**

The NHS foundation trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms, except for early retirement provisions and injury benefit provisions which both use the HM Treasury's pension discount rate of 2.8% in real terms.

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

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS foundation trusts is disclosed at Note 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 the NHS foundation trust pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses when the liability arises.

## 1.14 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 33 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in Note 33, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

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

## 1.15 Public dividend capital

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

## 1.16 Transforming community services (TCS) transactions

TCS transactions meet the definition of a 'machinery of government' change and have been accounted for using merger accounting in line with the FT ARM. As set out in note 36, prior year comparatives have not been restated for Transforming Community Services transactions occurring in 2011/12 following a dispensation provided by HM Treasury's Financial Reporting Advisory Board (FRAB) in December 2011.

## 1.17 Value Added Tax

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

## 1.18 Corporation tax

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

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

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

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

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

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

### **1.19 Foreign exchange**

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

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

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

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

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

### **1.20 Third party assets**

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

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 40 to the accounts).

### **1.21 Going concern**

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

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

### **1.22 Early adoption of standards, amendments and interpretations**

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

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

International Accounting Standard 8 requires disclosure of respect of new standards, amendments and interpretations that are, or will be, applicable after the accounting period. There are a number of

IFRSs, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period.

The following have not been adopted early in these accounts:

- IFRS 7 Financial Instruments: Disclosures Amendment to allow for better comparisons between financial statements. The effective date is for accounting periods beginning on or after 1 January 2013. Also an amendment to improve the disclosure requirements in relation to transferred financial assets which is effective for accounting periods beginning on or after 1 July 2011.
- IFRS 9 Financial Instruments: A new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 January 2015.
- IFRS 13 Fair Value Measurement IFRS 13 applies when other IFRS's require or permit fair value measurements. The new requirements are effective for accounting periods beginning on, or after 1 January 2013.
- IAS 1 Presentation of Financial Statements Amendment to the existing standard to improve disclosures to users of the accounts. The effective date is for accounting periods beginning on, or after 1 June 2012.
- IAS 19 Employee Benefits The amendments will improve the recognition and disclosure requirements for defined benefit plans and modify the accounting for termination benefits. The new requirements are effective for accounting periods beginning on or after 1 January 2013.
- IAS 32 Offsetting Financial Assets and Financial Liabilities Amendments to clarify the application of offsetting requirements. The amendments are effective for accounting periods beginning on or after 1 January 2014.

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



## Note 2 Operating segments

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

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

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

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

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

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

2010/11 restated	Acute	Ambulance	Mental Health	Specialist	Total
	£m	£m	£m	£m	£m
Income (less impairment reversals)	22,802	25	6,150	2,101	31,078
Expenditure before depreciation and impairment	(21,345)	(23)	(5,752)	(1,897)	(29,017)
Depreciation	(733)	(1)	(126)	(75)	(935)
Impairment (net of reversals)	(685)	-	(68)	(35)	(788)
Net finance costs	(563)	-	(143)	(26)	(732)
Other	-	-	-	(1)	(1)
<b>Surplus / (deficit) for the year</b>	<b>(524)</b>	<b>1</b>	<b>61</b>	<b>67</b>	<b>(395)</b>

### Reconciliation to Statement of Comprehensive Income

	2011/12	2010/11
	£m	£m
Income	36,496	31,150
Impairment reversals	(139)	(72)
<b>Income before impairments and inter FT adjustments</b>	<b>36,357</b>	<b>31,078</b>
Less: Inter FT income adjustment	(568)	(407)
<b>Income before impairments</b>	<b>35,789</b>	<b>30,671</b>
Expenditure before depreciation and impairment	34,124	29,017
Depreciation	1,020	935
<b>Expenditure before impairments and inter FT adjustments</b>	<b>35,144</b>	<b>29,952</b>
Less Inter FT expenditure adjustment	(568)	(407)
<b>Expenditure before impairments</b>	<b>34,576</b>	<b>29,545</b>
<b>Operating surplus before impairments</b>	<b>1,213</b>	<b>1,126</b>

### Note 3.1 Operating income - by activity

Income from Activities	2011/12 £m	2010/11 restated £m
<b>Acute Trusts</b>		
Elective income	5,045	4,699
Non-elective income	6,290	6,012
Outpatient income	4,093	3,769
A & E income	751	669
Other NHS clinical income	6,903	5,965
<b>Mental Health Trusts</b>		
Cost and Volume Contract income	429	455
Block Contract income	5,258	4,524
Clinical Partnerships providing mandatory services (including S31 agreements)	199	214
Clinical income for the Secondary Commissioning of mandatory services	52	51
Other clinical income from mandatory services	184	183
<b>Ambulance Trusts</b>		
A&E income	289	20
PTS income	23	1
Other income	26	2
<b>Community Trusts (and any Trusts providing Community Services)</b>		
Income from PCTs	1,840	48
Income not from PCTs	63	1
<b>All Trusts</b>		
Private patient income	283	260
Other non-protected clinical income	261	226
<b>Total income from activities</b>	<b>31,989</b>	<b>27,099</b>
<b>Other operating income</b>		
Research and development	465	395
Education and training	1,396	1,315
Charitable and other contributions to expenditure	130	141
Transfer from donated asset reserve in respect of depreciation on donated assets	0	0
Non-patient care services to other bodies	617	618
Other	1,069	992
Profit on disposal of assets	14	13
Reversal of impairments	139	72
Amortisation of PFI deferred credits	1	1
Income in respect of staff costs where accounted on gross basis	108	97
<b>Total other operating income</b>	<b>3,939</b>	<b>3,644</b>
<b>TOTAL OPERATING INCOME</b>	<b>35,928</b>	<b>30,743</b>

### Note 3.2 Private patient income

NHS foundation trusts received £304 million of private patient income in 2011/12 (2010/11: £274 million). This figure represents 1.1% of the total patient related income of NHS foundation trusts in 2011/12 (2010/11: 1.1%).

At the time of authorisation of each NHS foundation trust Monitor sets a limit, expressed as a percentage of the NHS foundation trust's total patient related income, for the amount of private patient income that that NHS foundation trust can generate (the private patient income cap). In their annual audited accounts NHS foundation trusts disclose the actual percentage of patient related income which private patient income comprises. An NHS foundation trust's private patient income cap is defined to one decimal place.

All 143 NHS foundation trusts have disclosed compliance against their cap in 2011/12 (2010/11: 2 breaches).

The figures above are higher than those in note 3.1 as an NHS foundation trust's private patient income cap includes the relevant proportion of the income of subsidiaries, associates, joint ventures or other joint arrangements involved in private patient activity in which an NHS foundation trust holds an investment, is a joint venturer, partner or holds other economic or equity interest. It also includes relevant private patient income classified within other operating income in note 3.1.

### Note 4 Operating Income - by source

	2011/12	2010/11
	£m	restated £m
<b>Income from activities</b>		
NHS Trusts	73	43
Strategic Health Authorities	329	282
Primary Care Trusts	30,108	25,425
Local Authorities	520	478
Department of Health - grants	5	1
Department of Health - other	8	26
NHS Other	352	333
Non-NHS: Private patients	275	253
Non-NHS: Overseas patients (non-reciprocal)	13	12
NHS injury cost recovery scheme	109	95
Non-NHS: Other	197	151
<b>Total income from activities</b>	<b>31,989</b>	<b>27,099</b>
<b>Other operating income (see detail provided in note 3)</b>		
Total other operating income	3,939	3,644
<b>TOTAL OPERATING INCOME</b>	<b>35,928</b>	<b>30,743</b>

## Note 5.1 Operating lease income

Income generated in lease agreements where foundation trusts are the lessor.

	2011/12	2010/11
	£m	restated £m
<b>Operating Lease Income</b>		
Rents recognised as income in the period	35	30
Contingent rents recognised as income in the period	1	1
<b>TOTAL</b>	<b>36</b>	<b>31</b>
<b>Future minimum lease payments due</b>		
On leases of Land expiring		
- not later than one year;	2	1
- later than one year and not later than five years;	5	3
- later than five years.	78	29
	<b>85</b>	<b>33</b>
On leases of Buildings expiring		
- not later than one year;	21	19
- later than one year and not later than five years;	62	56
- later than five years.	97	115
	<b>180</b>	<b>190</b>
On other leases expiring		
- not later than one year;	1	2
- later than one year and not later than five years;	1	6
- later than five years.	1	4
	<b>3</b>	<b>12</b>
<b>TOTAL</b>	<b>268</b>	<b>235</b>

## Note 5.2 Arrangements containing an operating lease

Costs and commitments incurred in lease arrangements where foundation trusts are lessees.

	2011/12	2010/11
	£m	restated £m
Minimum lease payments	298	197
Contingent rents	0	0
Less sublease payments received	(2)	(2)
<b>TOTAL</b>	<b>296</b>	<b>195</b>
<b>Future minimum lease payments due:</b>		
- not later than one year;	226	147
- later than one year and not later than five years;	404	334
- later than five years.	434	381
<b>TOTAL</b>	<b>1,064</b>	<b>862</b>
Total of future minimum sublease lease payments to be received at the date of the Statement of Financial Position	2	2

## Note 6.1 Operating expenses

	2011/12	2010/11 restated
	£m	£m
Services from NHS Trusts	181	157
Services from PCTs	150	115
Services from other NHS Bodies	72	90
Purchase of healthcare from non NHS bodies	293	242
Employee Expenses - Executive directors	138	126
Employee Expenses - Non-executive directors	18	17
Employee Expenses - Staff	22,699	19,347
Drug costs	2,367	2,057
Supplies and services - clinical (excluding drug costs)	2,877	2,490
Supplies and services - general	653	559
Establishment	534	424
Research and development	87	70
Transport	157	121
Premises	1,734	1,414
Increase / (decrease) in provision for impairment of receivables	54	61
Increase in other provisions	21	4
Inventories write down	2	1
Inventories consumed	46	84
Other impairment of financial assets	0	(1)
Depreciation on property, plant and equipment	977	903
Amortisation on intangible assets	42	32
Impairments of property, plant and equipment, intangible assets, investment property and assets held for sale	500	860
Audit fees *		
audit services- statutory audit	11	10
audit services -regulatory reporting	1	1
Other auditors' remuneration	6	6
Clinical negligence	446	376
Loss on disposal of investments	0	0
Loss on disposal of assets	11	14
Legal fees	46	39
Consultancy costs	176	157
Training, courses and conferences	109	101
Patient travel	23	22
Car parking & Security	13	11
Redundancy	127	84
Early retirements	6	1
Hospitality	3	4
Publishing	1	1
Insurance	26	21
Other services, eg external payroll	57	52
Grossing up consortium arrangements	16	9
Losses, ex gratia & special payments	17	8
Other	379	315
<b>Total Operating Expenses</b>	<b>35,076</b>	<b>30,405</b>

\* These are the audit fees disclosed by NHS foundation trusts and do not include the audit fee payable to the National Audit Office in respect of these consolidated NHS Foundation Trust accounts. This fee is accounted for within Monitor's own accounts which are presented separately to Parliament. This fee is £73,200 (2010/11: £73,200).

## Note 6.2 Other auditors' remuneration

Other auditor remuneration is made up as follows:

	2011/12	2010/11
	£m	restated £m
Internal audit services	4	3
Other	2	3
<b>TOTAL</b>	<b>6</b>	<b>6</b>

## Note 6.3 Limitation on auditors' liability

74 (2010/11: 60) NHS foundation trusts have a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit in 2011/12 ranges between £0.5 million to £5 million (2010/11: £0.5 million to £10 million).

## Note 7.1 Staff costs

	Permanent	Other	2011/12	2010/11
	£m	£m	Total £m	Total restated £m
Salaries and wages	18,065	386	18,451	15,707
Social security costs	1,414	20	1,434	1,194
Employers' contributions to NHS Pensions	2,074	23	2,097	1,780
Pension cost - other contributions	24	1	25	3
Termination benefits	127	5	132	84
Agency/contract staff	26	881	907	831
<b>TOTAL GROSS STAFF COSTS</b>	<b>21,730</b>	<b>1,316</b>	<b>23,046</b>	<b>19,599</b>
Income in respect of staff costs	(47)	(1)	(48)	(22)
<b>TOTAL STAFF COSTS</b>	<b>21,683</b>	<b>1,315</b>	<b>22,998</b>	<b>19,577</b>

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

## Note 7.2 Staff numbers (whole time equivalents)

	Permanent Number	Other Number	2011/12 Total Number	2010/11 Total restated Number
Medical and dental	50,505	5,411	55,916	50,770
Ambulance staff	6,767	95	6,862	3,501
Administration and estates	116,534	3,184	119,718	104,122
Healthcare assistants and other support staff	74,213	2,564	76,777	65,321
Nursing, midwifery and health visiting staff	192,080	5,073	197,153	166,973
Nursing, midwifery and health visiting learners	2,377	192	2,569	1,895
Scientific, therapeutic and technical staff	79,130	1,337	80,467	66,614
Social care staff	1,848	706	2,554	2,429
Bank and agency staff	0	20,105	20,105	20,074
Other	4,211	370	4,581	4,417
<b>TOTAL</b>	<b>527,665</b>	<b>39,037</b>	<b>566,702</b>	<b>486,116</b>

Individual NHS foundation trusts' accounts contain disclosure of exit packages agreed in the year and the Hutton fair pay ratio as required by the HM Treasury FReM.

## Note 8 Pensions

All NHS foundation trusts participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the regulations of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS foundation trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury. For 2011/12, the contribution rate was 14% (2010/11: 14%)

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

## Note 9 Retirements due to ill-health

During 2011/12 there were 664 retirements on the grounds of ill-health (2010/11: 641). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £50 million (2010/11: £42 million).

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

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

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

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

In 2010/11 eleven NHS foundation trusts incurred expenditure arising from claims made under this legislation:

- 2gether NHS Foundation Trust;
- Camden and Islington NHS Foundation Trust;
- East Kent Hospitals University NHS Foundation Trust;
- Great Western Hospitals NHS Foundation Trust;

- Hampshire Hospitals NHS Foundation Trust;
- King's College Hospital NHS Foundation Trust;
- Medway NHS Foundation Trust;
- Mid Staffordshire NHS Foundation Trust;
- Northumberland, Tyne & Wear NHS Foundation Trust;
- Surrey and Borders Partnership NHS Foundation Trust; and
- The Rotherham NHS Foundation Trust

The total amounts paid in respect of both interest and debt recovery costs reimbursed was £26,000.

#### Note 11 Finance income

	<b>2011/12</b>	<b>2010/11</b>
	<b>£m</b>	<b>restated</b>
		<b>£m</b>
Interest on bank accounts	18	12
Interest on loans and receivables	7	6
Interest on held-to-maturity financial assets	1	1
Other gains (investment properties)	1	4
Other	2	3
<b>TOTAL</b>	<b>29</b>	<b>26</b>

#### Note 12 Finance expenditure

	<b>2011/12</b>	<b>2010/11</b>
	<b>£m</b>	<b>restated</b>
		<b>£m</b>
Loans from the Foundation Trust Financing Facility	29	21
Commercial loans	1	1
Finance leases	8	7
Other	1	5
Finance Costs in PFI obligations		
Main Finance Costs	263	242
Contingent Finance Costs	54	39
Other finance costs	1	1
<b>TOTAL</b>	<b>357</b>	<b>316</b>



**Note 13.1 Intangible assets 2011/12**

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

**Note 13.2 Intangible assets 2010/11**

	Software licences (purchased)	Licences & trademarks (purchased)	Information technology (internally generated)	Development expenditure (internally generated)	Other (purchased)	Intangible Assets Under Construction	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross cost at 1 April 2010</b>	<b>178</b>	<b>3</b>	<b>30</b>	<b>4</b>	<b>2</b>	<b>26</b>	<b>243</b>
Prior period adjustments	(8)	0	2	(3)	0	1	(8)
<b>Gross cost at 1 April 2010 - restated</b>	<b>170</b>	<b>3</b>	<b>32</b>	<b>1</b>	<b>2</b>	<b>27</b>	<b>235</b>
<b>Gross cost at start of period for new FTs</b>	<b>8</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>
Additions - purchased	25	0	4	1	0	22	52
Additions - donated	0	0	0	0	1	0	1
Additions - internally generated	0	0	0	0	0	2	2
Impairments	0	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	22	0	8	1	0	(21)	10
Revaluations	1	0	0	0	0	0	1
Transferred to disposal group as asset held for sale	0	0	0	0	0	0	0
Disposals	(2)	0	(1)	0	0	0	(3)
<b>Valuation/Gross cost at 31 March 2011</b>	<b>224</b>	<b>3</b>	<b>44</b>	<b>3</b>	<b>3</b>	<b>30</b>	<b>307</b>
<b>Amortisation at 1 April 2010</b>	<b>92</b>	<b>1</b>	<b>13</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>108</b>
Prior period adjustments	(7)	0	0	(1)	0	0	(8)
<b>Amortisation at 1 April 2010 - restated</b>	<b>85</b>	<b>1</b>	<b>13</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>100</b>
<b>Amortisation at start of period for new FTs</b>	<b>5</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>
Provided during the year	27	0	5	0	0	0	32
Impairments	7	0	0	0	0	0	7
Reversal of impairments	0	0	0	0	0	0	0
Reclassifications	0	0	1	0	0	0	1
Revaluation surpluses	0	0	0	0	0	0	0
Transferred to disposal group as asset held for sale	0	0	0	0	0	0	0
Disposals	(2)	0	(1)	0	0	0	(3)
<b>Amortisation at 31 March 2011</b>	<b>122</b>	<b>1</b>	<b>19</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>143</b>
<b>Net book value at 31 March 2011</b>	<b>102</b>	<b>2</b>	<b>25</b>	<b>2</b>	<b>3</b>	<b>30</b>	<b>164</b>
<b>Net book value at 1 April 2010 - restated</b>	<b>85</b>	<b>2</b>	<b>19</b>	<b>0</b>	<b>2</b>	<b>27</b>	<b>135</b>

**Note 13.3 Intangible asset financing**

	Software licences (purchased) £m	Licences & trademarks (purchased) £m	Information technology (internally generated) £m	Development expenditure (internally generated) £m	Other (purchased) £m	Intangible Assets Under Construction £m	Total £m
<b>Net book value</b>							
NBV - Purchased at 31 March 2012	106	2	39	4	1	36	188
NBV - Finance leases at 31 March 2012	3	0	0	0	0	0	3
NBV - Donated at 31 March 2012	2	0	0	0	1	4	7
<b>NBV total at 31 March 2012</b>	<b>111</b>	<b>2</b>	<b>39</b>	<b>4</b>	<b>2</b>	<b>40</b>	<b>198</b>
<b>Net book value</b>							
NBV - Purchased at 31 March 2011	98	2	25	2	2	30	159
NBV - Finance Leases at 31 March 2011	3	0	0	0	0	0	3
NBV - Donated at 31 March 2011	1	0	0	0	1	0	2
<b>NBV total at 31 March 2011 - restated</b>	<b>102</b>	<b>2</b>	<b>25</b>	<b>2</b>	<b>3</b>	<b>30</b>	<b>164</b>

**Note 14.1 Property, Plant and Equipment 2011/12**

	Land	Buildings excluding dwellings	Dwellings	Assets Under Construction and POA	Plant & machinery	Transport equipment	Information Technology	Furniture & fittings	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross cost at 1 April 2011</b>	3,181	15,979	243	789	3,663	105	1,076	293	25,329
Prior period adjustments	(1)	1	0	0	(1)	0	0	0	(1)
<b>Valuation/Gross cost at 1 April 2011 - restated (pre TCS adjustments)</b>	3,180	15,980	243	789	3,662	105	1,076	293	25,328
TCS and merger adjustments	0	0	0	0	4	0	5	1	10
<b>Valuation/Gross cost at 1 April 2011 - restated</b>	3,180	15,980	243	789	3,666	105	1,081	294	25,338
<b>Valuation/Gross cost at start of period for new FTs</b>	147	665	9	20	220	66	65	9	1,201
Additions - purchased	11	565	1	712	202	6	90	15	1,602
Additions - donated	0	10	0	49	25	0	1	0	85
Additions - government granted	0	0	0	1	0	0	0	0	1
Impairments	(69)	(209)	(5)	0	0	0	0	0	(283)
Reversal of impairments	(62)	84	0	0	1	0	0	0	23
Reclassifications	2	677	(4)	(811)	65	10	37	1	(23)
Transfer to/from asset held for sale or disposal group	(42)	(54)	(8)	0	0	0	(1)	0	(105)
Revaluations	(5)	(228)	0	(2)	(27)	0	(4)	(2)	(268)
Disposals	(18)	(27)	(3)	(2)	(203)	(10)	(49)	(6)	(318)
<b>Valuation/Gross cost at 31 March 2012</b>	3,144	17,463	233	756	3,949	177	1,220	311	27,253
<b>Accumulated depreciation at 1 April 2011</b>	93	1,833	29	15	2,301	61	717	183	5,232
Prior period adjustments	(1)	0	0	(1)	(1)	0	0	0	(3)
<b>Accumulated depreciation at 1 April 2011 - restated (pre TCS adjustments)</b>	92	1,833	29	14	2,300	61	717	183	5,229
TCS and merger adjustments	0	0	0	0	2	0	3	1	6
<b>Accumulated depreciation at 1 April 2011 - restated</b>	92	1,833	29	14	2,302	61	720	184	5,235
<b>Depreciation at start of period for new FTs</b>	0	45	1	0	133	35	37	7	258
Provided during the year	0	505	8	0	303	14	126	21	977
Impairments	67	393	3	16	5	0	0	1	485
Reversal of impairments	(66)	(72)	0	0	0	0	0	0	(138)
Reclassifications	(1)	(12)	0	0	(1)	0	0	0	(14)
Transfer to/from asset held for sale or disposal group	0	(2)	(1)	0	0	0	(1)	0	(4)
Revaluation surpluses	(33)	(499)	(8)	(1)	(29)	0	(4)	(3)	(577)
Disposals	0	(15)	(2)	0	(198)	(10)	(46)	(6)	(277)
<b>Accumulated depreciation at 31 March 2012</b>	59	2,176	30	29	2,515	100	832	204	5,945
<b>Net book value at 31 March 2012</b>	3,085	15,287	203	727	1,434	77	388	107	21,308
<b>Net book value at 1 April 2011 (pre TCS)</b>	3,088	14,147	214	775	1,362	44	359	110	20,099

**Note 14.2 Property, Plant and Equipment 2010/11**

	Land	Buildings excluding dwellings	Dwellings	Assets Under Construction and POA	Plant & machinery	Transport equipment	Information Technology	Furniture & fittings	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/Gross cost at 1 April 2010</b>	<b>3,031</b>	<b>14,250</b>	<b>239</b>	<b>821</b>	<b>3,512</b>	<b>29</b>	<b>955</b>	<b>270</b>	<b>23,107</b>
Prior period adjustments	111	(307)	(3)	(4)	(11)	0	1	(1)	(214)
<b>Valuation/Gross cost at 1 April 2010 - restated</b>	<b>3,142</b>	<b>13,943</b>	<b>236</b>	<b>817</b>	<b>3,501</b>	<b>29</b>	<b>956</b>	<b>269</b>	<b>22,893</b>
<b>Valuation/Gross cost at start of period for new FTs</b>	<b>104</b>	<b>401</b>	<b>9</b>	<b>23</b>	<b>109</b>	<b>77</b>	<b>59</b>	<b>12</b>	<b>794</b>
Additions - purchased	20	1,535	3	757	232	3	78	12	2,640
Additions - donated	0	10	0	44	27	0	1	0	82
Additions - government granted	0	0	0	0	0	0	0	0	0
Impairments	(74)	(159)	(5)	0	0	0	0	0	(238)
Reversal of impairments	0	0	0	0	0	0	0	0	0
Reclassifications	1	770	5	(837)	43	0	28	6	16
Transfer to/from asset held for sale or disposal group	(29)	(27)	(2)	(2)	(1)	0	0	0	(61)
Revaluations	30	(455)	(2)	(10)	(6)	0	0	0	(443)
Disposals	(13)	(39)	(1)	(3)	(242)	(4)	(46)	(6)	(354)
<b>Valuation/Gross cost at 31 March 2011</b>	<b>3,181</b>	<b>15,979</b>	<b>243</b>	<b>789</b>	<b>3,663</b>	<b>105</b>	<b>1,076</b>	<b>293</b>	<b>25,329</b>
<b>Accumulated depreciation at 1 April 2010</b>	<b>3</b>	<b>1,708</b>	<b>29</b>	<b>0</b>	<b>2,166</b>	<b>22</b>	<b>607</b>	<b>160</b>	<b>4,695</b>
Prior period adjustments	76	(315)	(3)	5	1	0	1	0	(235)
<b>Accumulated depreciation at 1 April 2010 - restated</b>	<b>79</b>	<b>1,393</b>	<b>26</b>	<b>5</b>	<b>2,167</b>	<b>22</b>	<b>608</b>	<b>160</b>	<b>4,460</b>
<b>Depreciation at start of period for new FTs</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>75</b>	<b>40</b>	<b>40</b>	<b>8</b>	<b>176</b>
Provided during the year	0	465	8	0	291	3	115	21	903
Impairments	37	787	2	20	3	0	0	0	849
Reversal of impairments	(19)	(50)	0	0	0	0	0	0	(69)
Reclassifications	0	1	0	0	0	0	(1)	(1)	(1)
Transfer to/from asset held for sale or disposal group	(2)	(1)	0	0	0	0	0	0	(3)
Revaluation surpluses	(2)	(751)	(7)	(10)	(3)	0	0	0	(773)
Disposals	0	(24)	0	0	(232)	(4)	(45)	(5)	(310)
<b>Accumulated depreciation at 31 March 2011</b>	<b>93</b>	<b>1,833</b>	<b>29</b>	<b>15</b>	<b>2,301</b>	<b>61</b>	<b>717</b>	<b>183</b>	<b>5,232</b>
<b>Net book value at 31 March 2011</b>	<b>3,088</b>	<b>14,146</b>	<b>214</b>	<b>774</b>	<b>1,362</b>	<b>44</b>	<b>359</b>	<b>110</b>	<b>20,097</b>
<b>Net book value at 1 April 2010 - restated</b>	<b>3,063</b>	<b>12,550</b>	<b>210</b>	<b>812</b>	<b>1,334</b>	<b>7</b>	<b>348</b>	<b>109</b>	<b>18,433</b>

The Statement of Financial Position for 31 March 2011 includes the effect of prior period adjustments but has not been restated for assets acquired under Transforming Community Services transactions from 1 April 2011. These adjustments are disclosed in note 14.1

### Note 14.3 Property Plant and Equipment financing

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets Under Construction and POA £m	Plant & machinery £m	Transport equipment £m	Information Technology £m	Furniture & fittings £m	Total £m
<b>Net book value at 31 March 2012</b>									
Owned	2,931	10,899	171	678	1,188	72	376	99	16,414
Finance Lease	59	96	16	0	56	4	3	1	235
On-balance-sheet PFI contracts and other service concession arrangements	4	3,620	10	10	15	0	0	0	3,659
PFI residual interests	0	1	5	0	0	0	0	0	6
Government granted	0	14	0	0	6	0	0	0	20
Donated	91	657	1	39	169	1	9	7	974
<b>NBV total at 31 March 2012</b>	<b>3,085</b>	<b>15,287</b>	<b>203</b>	<b>727</b>	<b>1,434</b>	<b>77</b>	<b>388</b>	<b>107</b>	<b>21,308</b>
<b>Net book value - 31 March 2011</b>									
Owned	2,932	10,163	181	731	1,155	38	350	103	15,653
Finance Lease	60	52	16	0	39	5	1	0	173
On-balance-sheet PFI contracts and other service concession arrangements	4	3,348	10	1	14	0	1	1	3,379
PFI residual interests	0	0	5	0	0	0	0	0	5
Government granted	0	22	0	2	7	0	0	0	31
Donated	92	562	2	41	147	1	7	6	858
<b>NBV total at 31 March 2011 - restated</b>	<b>3,088</b>	<b>14,147</b>	<b>214</b>	<b>775</b>	<b>1,362</b>	<b>44</b>	<b>359</b>	<b>110</b>	<b>20,099</b>

Restated net book values are prior to 1 April 2011 TCS adjustments as shown in note 14.1.

## Note 15.1 Investments

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

	Investment Property	Investments in associates (and joined controlled operations)	Other Investments
	2010/11	2010/11	2010/11
	£m	£m	£m
<b>Carrying Value at 1 April 2010</b>	<b>41</b>	<b>0</b>	<b>0</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>0</b>	<b>0</b>
Acquisitions in year - subsequent expenditure	0	0	5
Acquisitions in year - other	0	3	0
Share of profit/(loss)	0	(1)	0
Impairments	(1)	0	0
Reversal of impairment	2	0	0
Transfers to assets held in disposal groups	1	0	0
Disposals	4	0	(5)
<b>Carrying Value at 31 March 2011</b>	<b>47</b>	<b>2</b>	<b>0</b>

## Note 15.2 Investment Property income

	2011/12	2010/11
	£m	£m
Investment Property income	3	2

## Note 16.1 Fair value of investments in associates and jointly controlled operations

	Assets	Liabilities	Revenues	Profit/(Loss)
	£m	£m	£m	£m
<b>31 March 2012</b>	17	(14)	32	(16)
<b>31 March 2011 (restated)</b>	20	(18)	14	(1)

**Note 16.2 Disclosure of aggregate amounts for assets and liabilities of associates and jointly controlled operations**

	31 March 2012	31 March 2011 restated
	£m	£m
Current assets	13	21
Non current assets	16	15
<b>Total assets</b>	<b>29</b>	<b>36</b>
Current liabilities	(16)	(22)
Non current liabilities	(9)	(10)
<b>Total liabilities</b>	<b>(25)</b>	<b>(32)</b>
Operating income	66	56
Operating expenses	(62)	(54)
<b>Surplus /(deficit) for the year</b>	<b>4</b>	<b>2</b>

**Note 17 Impairment of assets**

	2011/12	2010/11 restated
	£m	£m
Loss or damage from normal operations	14	19
Loss as a result of catastrophe	3	0
Abandonment of assets in course of construction	8	1
Unforeseen obsolescence	4	30
Over specification of assets	7	13
Other	117	449
Changes in market price	635	586
<b>Total Impairments</b>	<b>788</b>	<b>1,098</b>
Reversal of impairments (including those taken to revaluation reserve)	(162)	(72)
<b>Total Net Impairments</b>	<b>626</b>	<b>1,026</b>

**Note 18.1 Inventories**

	31 March 2012	31 March 2011 restated
	£m	£m
Drugs	146	140
Consumables	260	233
Energy	8	7
Inventories carried at fair value less costs to sell	4	4
Other	20	16
<b>TOTAL Inventories</b>	<b>438</b>	<b>400</b>

**Note 18.2 Inventories recognised in expenses**

	2011/12	2010/11 restated
	£m	£m
Inventories recognised in expenses	3,083	2,706
Write-down of inventories recognised as an expense	5	3
<b>TOTAL Inventories recognised in expenses</b>	<b>3,088</b>	<b>2,709</b>



## Note 19.1 Trade and other receivables

	31 March 2012 £m	31 March 2011 restated £m
<b>Current</b>		
NHS Receivables - Revenue	566	569
NHS Receivables - Capital	0	1
Other receivables with related parties - Revenue	104	78
Other receivables with related parties - Capital	2	1
Provision for impaired receivables	(184)	(173)
Prepayments (Non-PFI)	208	173
PFI Prepayments	19	14
Accrued income	244	203
Interest Receivable	1	1
Corporation tax receivable	0	1
Finance Lease Receivables	0	0
Operating lease receivables	0	0
PDC dividend receivable	18	14
VAT receivable	64	48
Other receivables	404	384
Other receivables - Capital	9	3
<b>TOTAL CURRENT TRADE AND OTHER RECEIVABLES</b>	<b>1,455</b>	<b>1,317</b>
<b>Non-Current</b>		
NHS Receivables - Revenue	31	38
Other receivables with related parties - Revenue	11	8
Provision for impaired receivables	(11)	(9)
Prepayments (Non-PFI)	21	10
PFI Prepayments	83	69
Accrued income	12	16
Finance Lease Receivables	4	4
Operating lease receivables	0	0
Other receivables	67	59
<b>TOTAL NON-CURRENT TRADE AND OTHER RECEIVABLES</b>	<b>218</b>	<b>195</b>

## Note 19.2 Provision for impairment of receivables

	2011/12 £m	2010/11 restated £m
<b>At 1 April</b>	<b>181</b>	<b>151</b>
At start of period for new NHS foundation trusts	7	2
Increase in provision	113	101
Amounts utilised	(47)	(34)
Unused amounts reversed	(59)	(38)
<b>At 31 March</b>	<b>195</b>	<b>182</b>

### Note 19.3 Analysis of impaired receivables

	2011/12		2010/11 restated	
	Trade Receivables	Other Receivables	Trade Receivables	Other Receivables
	£m	£m	£m	£m
Ageing of impaired receivables				
0 - 30 days	43	8	23	5
30-60 days	7	1	4	0
60-90 days	11	1	24	0
90- 180 days	20	3	19	2
over 180 days	98	21	102	16
<b>Total</b>	<b>179</b>	<b>34</b>	<b>172</b>	<b>23</b>
Ageing of non-impaired receivables past their due date				
0 - 30 days	257	66	195	43
30-60 days	49	14	47	5
60-90 days	57	10	94	3
90- 180 days	50	7	49	7
over 180 days	69	39	60	29
<b>Total</b>	<b>482</b>	<b>136</b>	<b>445</b>	<b>87</b>

### Note 20 Other financial assets

	31 March 2012	31 March 2011
	£m	£m
<b>Non-current</b>		
Loan and receivables	4	0
<b>Total</b>	<b>4</b>	<b>0</b>
<b>Current</b>		
Held to maturity investments	11	9
Loan and receivables	33	29
<b>Total</b>	<b>44</b>	<b>38</b>

## Note 21 Non current assets held for sale and assets in disposal groups

	2011/12				2010/11
	Intangible assets	Property, Plant and Equipment	Other	Total	Total
	£m	£m	£m	£m	
<b>NBV of non-current assets for sale and assets in disposal groups at 1 April</b>	0	80	0	80	63
<b>At start of period for new FTs</b>	0	5	0	5	1
Plus assets classified as available for sale in the year	0	102	0	102	77
Less assets sold in year	0	(57)	0	(57)	(40)
Less Impairment of assets held for sale	0	(18)	0	(18)	(2)
Plus Reversal of impairment of assets held for sale	0	1	0	1	0
Less assets no longer classified as held for sale, for reasons other than disposal by sale	0	3	0	3	(19)
<b>NBV of non-current assets for sale and assets in disposal groups at 31 March</b>	0	116	0	116	80

## Note 22 Cash and cash equivalents

	2011/12	2010/11 restated
	£m	£m
<b>At 1 April</b>	<b>3,258</b>	<b>2,880</b>
<b>At start of period for new FTs</b>	<b>53</b>	<b>72</b>
Net change in year	636	306
<b>At 31 March</b>	<b>3,947</b>	<b>3,258</b>
Broken down into:		
Cash at commercial banks and in hand	111	64
Cash with the Government Banking Service	3,794	3,153
Other current investments	42	41
<b>Cash and cash equivalents as in Statement of Financial Position</b>	<b>3,947</b>	<b>3,258</b>
Bank overdraft	(5)	(9)
Drawdown in committed facility	(8)	(15)
<b>Cash and cash equivalents as in Statement of Cashflows</b>	<b>3,934</b>	<b>3,234</b>

## Note 23.1 Trade and other payables

	<b>31 March 2012 £m</b>	<b>31 March 2011 restated £m</b>
<b>Current</b>		
Receipts in advance	69	82
NHS payables - capital	1	1
NHS payables - revenue	319	305
Amounts due to other related parties - capital	0	1
Amounts due to other related parties - revenue	208	176
Other trade payables - capital	225	182
Other trade payables - revenue	578	471
Social Security costs	168	144
VAT payable	1	1
Other taxes payable	260	229
Other payables	420	406
Accruals	1,207	912
PDC dividend payable	2	6
<b>TOTAL CURRENT TRADE AND OTHER PAYABLES</b>	<b>3,458</b>	<b>2,916</b>
<b>Non-current</b>		
Receipts in advance	1	1
NHS payables - capital	0	0
NHS payables - revenue	4	3
Amounts due to other related parties - revenue	8	7
Other trade payables - capital	3	2
Other trade payables - revenue	2	1
VAT payable	0	1
Other payables	12	10
Accruals	0	1
<b>TOTAL NON-CURRENT TRADE AND OTHER PAYABLES</b>	<b>30</b>	<b>26</b>

## Note 23.2 Early retirements detail included in NHS payables above

	<b>2011/12 £m</b>	<b>2010/11 restated £m</b>
To buy out the liability for early retirements over 5 years	2	3
Outstanding pension contributions	53	45
	<b>Number</b>	<b>Number</b>
Number of cases involved	236	202

## Note 24.1 Borrowings

	31 March 2012 £m	31 March 2011 restated £m
<b>Current</b>		
Bank overdrafts - Government Banking Service	0	0
Bank overdrafts - Commercial banks	5	9
Drawdown in committed facility	8	15
Loans from Foundation Trust Financing Facility	66	39
Loans from Department of Health	14	9
Other Loans	3	2
Obligations under finance leases	23	18
Obligations under PFI contracts (excl. lifecycle)	95	87
<b>TOTAL CURRENT BORROWINGS</b>	<b>214</b>	<b>179</b>
<b>Non-current</b>		
Loans from Foundation Trust Financing Facility	860	679
Other Loans	72	50
Obligations under finance leases	102	84
Obligations under Private Finance Initiative contracts	4,313	4,190
<b>TOTAL OTHER NON CURRENT LIABILITIES</b>	<b>5,347</b>	<b>5,003</b>

## Note 24.2 Prudential Borrowing Limit

	2011/12 £m	2010/11 restated £m
Total long term borrowing limit set by Monitor	9,497	8,842
Working capital facility limit agreed by Monitor	2,265	2,021
<b>Total Prudential Borrowing Limit at 31 March</b>	<b>11,762</b>	<b>10,863</b>
<b>Borrowing as defined in the Prudential Borrowing Code</b>		
Borrowing at 1 April	5,162	3,833
Borrowing at start of period for new NHS foundation trusts	69	50
Net actual borrowing/(repayment) in year	297	1,279
<b>Long term borrowing at 31 March</b>	<b>5,528</b>	<b>5,162</b>
Working capital borrowing at 1 April	25	35
Working capital borrowing at start of period for new FTs	0	0
Net actual borrowing/(repayment) in year - working capital	5	(10)
<b>Working capital borrowing at 31 March</b>	<b>30</b>	<b>25</b>

## Note 25.1 Provisions for liabilities and charges

	Current		Non-current	
	31 March 2012	31 March 2011 restated	31 March 2012	31 March 2011 restated
Pensions relating to former directors	0	0	2	2
Pensions relating to other staff	15	14	156	154
Other legal claims	29	28	12	12
Agenda for Change	12	22	2	2
Restructurings	33	28	3	2
Continuing care	1	2	1	1
Equal pay	3	4	15	15
Redundancy	49	31	3	5
Other	140	86	65	55
<b>Total</b>	<b>282</b>	<b>215</b>	<b>259</b>	<b>248</b>

## Note 25.2 Provisions for liabilities and charges analysis

	Pensions - former directors	Pensions - other staff	Other legal claims	Agenda for Change	Restructurings	Continuing care	Equal pay	Redundancy	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2011 (restated)</b>	<b>2</b>	<b>168</b>	<b>40</b>	<b>24</b>	<b>30</b>	<b>3</b>	<b>19</b>	<b>36</b>	<b>141</b>	<b>463</b>
<b>At start of period for new FTs</b>	<b>0</b>	<b>9</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>7</b>	<b>20</b>
Change in the discount rate	0	1	0	0	0	0	0	0	0	1
Arising during the year	1	9	23	4	27	1	2	49	107	223
Utilised during the year	(1)	(18)	(15)	(12)	(14)	0	(1)	(21)	(32)	(114)
Reversed unused	0	(3)	(9)	(2)	(8)	(2)	(2)	(13)	(19)	(58)
Unwinding of discount	0	5	0	0	0	0	0	0	1	6
<b>At 31 March 2012</b>	<b>2</b>	<b>171</b>	<b>41</b>	<b>14</b>	<b>36</b>	<b>2</b>	<b>18</b>	<b>52</b>	<b>205</b>	<b>541</b>
<b>Expected timing of cashflows:</b>										
- not later than one year;	0	15	29	12	33	1	3	49	140	282
- later than one year and not later than five years;	1	58	4	2	3	1	15	2	32	118
- later than five years.	1	98	8	0	0	0	0	1	33	141
<b>TOTAL</b>	<b>2</b>	<b>171</b>	<b>41</b>	<b>14</b>	<b>36</b>	<b>2</b>	<b>18</b>	<b>52</b>	<b>205</b>	<b>541</b>

### Note 25.3 Clinical negligence liabilities

	31 March 2012	31 March 2011 restated
	£m	£m
Amount included in provisions of the NHS Litigation Authority	3,467	2,905

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

### Note 26 Other liabilities

	31 March 2012 restated £m	31 March 2011 restated £m	1 April 2010 restated £m
<b>Current</b>			
Deferred grants income	20	15	17
Other Deferred income	526	509	405
Deferred PFI credits	1	1	1
Lease incentives	1	0	0
Net Pension Scheme Liability	6	6	6
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<b>554</b>	<b>531</b>	<b>429</b>
<b>Non-current</b>			
Deferred grants income	1	19	20
Other Deferred income	122	101	85
Deferred PFI credits	19	20	20
Lease incentives	7	0	0
Net Pension Scheme Liability	5	3	9
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<b>154</b>	<b>143</b>	<b>134</b>

As set out in note 35, deferred income has been restated following the change in accounting policy for government grants.

### Note 27 Contractual capital commitments

	31 March 2012 £m	31 March 2011 restated £m
Property, Plant and Equipment	562	529
Intangible assets	10	13
<b>Total</b>	<b>572</b>	<b>542</b>

## Note 28.1 Finance lease receivables

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

	31 March 2012	31 March 2011 restated
	£m	£m
Gross lease receivables	13	14
Of which those receivable:		
- not later than one year;	0	0
- later than one year and not later than five years;	2	2
- later than five years.	11	12
Unearned interest income	(8)	(9)
Allowance for uncollectable lease payments	0	0
<b>Net lease receivables</b>	<b>5</b>	<b>5</b>
Of which those receivable:		
- not later than one year;	0	0
- later than one year and not later than five years;	1	0
- later than five years.	4	5

	31 March 2012	31 March 2011
	£m	£m
The unguaranteed residual value accruing to the FT	2	2
The accumulated allowance for uncollectable minimum lease payments receivable	1	1
Contingent rents recognised as income in the period	0	0
Contingent rents recognised as expenditure in the period	0	0



## Note 28.2 Finance lease obligations

Obligations incurred in lease agreements where foundation trusts are lessees:

	31 March 2012	31 March 2011
	£m	£m
<b>Gross lease liabilities</b>	<b>190</b>	<b>164</b>
of which liabilities are due		
- not later than one year;	29	23
- later than one year and not later than five years;	75	62
- later than five years.	86	79
Finance charges allocated to future periods	(65)	(62)
<b>Net lease liabilities</b>	<b>125</b>	<b>102</b>
- not later than one year;	23	18
- later than one year and not later than five years;	56	42
- later than five years.	46	42

## Note 29.1 On-Statement of Financial Position Private Finance Initiative (PFI) finance obligations

	31 March 2012	31 March 2011 restated
	£m	£m
<b>Gross PFI liabilities</b>	<b>9,285</b>	<b>9,287</b>
of which liabilities are due		
- not later than one year;	340	326
- later than one year and not later than five years;	1,307	1,271
- later than five years.	7,638	7,690
Finance charges allocated to future periods	(4,877)	(5,009)
<b>Net PFI obligation</b>	<b>4,408</b>	<b>4,278</b>
- not later than one year;	95	87
- later than one year and not later than five years;	389	372
- later than five years.	3,924	3,819

## Note 29.2 On-Statement of Financial Position Private Finance Initiative (PFI) service obligations

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 2012	31 March 2011 restated
	£m	£m
<b>Commitments in respect of the service element of the PFI</b>		
Within one year	346	316
2nd to 5th years (inclusive)	1,441	1,335
Later than five years	10,465	10,642
<b>Total</b>	<b>12,252</b>	<b>12,293</b>

**Note 30.1 Off-Statement of Financial Position PFI: charges**

	<b>2011/12</b>	<b>2010/11</b>
	<b>Total</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>
Gross charge to operating expenses in respect of off balance sheet PFI transaction(s)	8	11
Amortisation of PFI deferred asset(s)	0	0
<b>Net charge to operating expenses in respect of off-balance sheet PFI transaction(s)</b>	<b>8</b>	<b>11</b>

**Note 30.2 Off-Statement of Financial Position PFI: commitments**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>Total</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>
Within one year	7	9
2nd to 5th years (inclusive)	29	33
Later than five years	18	18
<b>Total</b>	<b>54</b>	<b>60</b>

### 31.1 Financial assets by category

	Loans and receivables £m	Assets at fair value through the I&E £m	Held to maturity £m	Available- for-sale £m	Total £m
<b>Assets included within the SoFP at 31 March 2012</b>					
NHS Trade and other receivables excluding non financial assets	863	5	0	0	868
Non-NHS Trade and other receivables excluding non financial assets	414	2	0	0	416
Other Investments	0	0	0	0	0
Other Financial Assets	48	0	1	0	49
Cash and cash equivalents at bank and in hand	3,947	0	0	0	3,947
<b>Total at 31 March 2012</b>	<b>5,272</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>5,280</b>
<b>Assets included within the SoFP at 31 March 2011 (restated)</b>					
NHS Trade and other receivables excluding non financial assets	833	5	0	0	838
Non-NHS Trade and other receivables excluding non financial assets	346	2	0	0	348
Other Investments	0	0	0	0	0
Other Financial Assets	37	0	1	0	38
Cash and cash equivalents (at bank and in hand)	3,258	0	0	0	3,258
<b>Total at 31 March 2011</b>	<b>4,474</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>4,482</b>

### 31.2 Financial liabilities by category

	Other financial liabilities £m	Liabilities at fair value through the I&E £m	Total £m
<b>Liabilities included within the SoFP at 31 March 2012</b>			
Borrowings excluding Finance lease and PFI	1,028	0	1,028
Obligations under finance leases	125	0	125
Obligations under Private Finance Initiative contracts	4,389	19	4,408
NHS Trade and other payables excluding non financial assets	540	0	540
Non-NHS Trade and other payables excluding non financial assets	1,873	24	1,897
Other financial liabilities	210	0	210
Provisions under contract	307	10	317
<b>Total at 31 March 2012</b>	<b>8,472</b>	<b>53</b>	<b>8,525</b>
<b>Liabilities included within the SoFP at 31 March 2011 (restated)</b>			
Borrowings excluding Finance lease and PFI liabilities	803	0	803
Obligations under finance leases	102	0	102
Obligations under Private Finance Initiative contracts	4,257	20	4,277
NHS Trade and other payables excluding non financial assets	488	0	488
Non-NHS Trade and other payables excluding non financial assets	1,400	16	1,416
Other financial liabilities	178	0	178
Provisions under contract	290	10	300
<b>Total at 31 March 2011</b>	<b>7,518</b>	<b>46</b>	<b>7,564</b>

### **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 foundation trusts is dependent on the contractual arrangements they have with their commissioning NHS Primary Care Trusts (PCTs). 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.

As part of their Terms of Authorisation, NHS foundation trusts are required to carry out their functions effectively, efficiently and economically and to be a going concern as defined by generally accepted accounting practice. Monitor supervises the risk of individual NHS foundation trusts breaching these Terms of Authorisation by reviewing a range of financial metrics and calculating a Financial Risk Rating for each trust every three months. If Monitor feels an NHS foundation trust is in risk of breaching its terms of Authorisation, it may intervene in the management of the trust using the powers under the National Health Service Act 2006.

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

#### Credit risk

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

NHS foundation trusts are permitted to generate income derived from private patients, however the proportion of this income as a total of the patient relevant income of the NHS foundation trust is capped by the National Health Service Act 2006 to the level generated in the year to 31 March 2003 (or first year as a NHS trust, if later). The Health Act 2009 changed the limit on the proportion of income derived from private patients by mental health NHS foundation trusts to 1.5%. Other sources of income from non-public sector bodies amount to a small proportion of total trust income. Accordingly, the effective credit risk posed by income derived from private patients or non-public sector entities to the sector is low.

The maximum exposures as at 31 March 2012 are in receivables, as disclosed in the Trade and other receivables note.

#### Currency risk

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

#### Interest rate risk

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

Under the National Health Service Act 2006, NHS foundation trusts are required to maintain their borrowing within a limit determined by a code devised by Monitor. Monitor's objective with this code is to ensure that individual NHS foundation trusts are at least as financial 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 Monitor intervening in the management of the trust.

A copy of the Prudential Borrowing Code (PBC) for NHS foundation trusts can be accessed on the Monitor website ([www.monitor-nhsft.gov.uk](http://www.monitor-nhsft.gov.uk)).

### Note 32.1 Fair values of financial assets

	<b>Book Value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Non current trade and other receivables excluding non financial assets	130	99
Other Investments	0	0
Other	1,826	1,794
<b>Total at 31 March 2012</b>	<b>1,956</b>	<b>1,893</b>

### Note 32.2 Fair values of financial liabilities

	<b>Book Value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Non current trade and other payables excluding non financial liabilities	271	231
Provisions under contract	215	181
Loans	790	672
Other	2,463	2,455
<b>Total at 31 March 2012</b>	<b>3,739</b>	<b>3,539</b>

### Note 33 Contingent assets and liabilities

	<b>31 March</b>	<b>31 March</b>
	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Value of contingent liabilities		
Equal pay	0	0
Other	(14)	(16)
<b>Gross value of contingent liabilities</b>	<b>(14)</b>	<b>(16)</b>
Amounts recoverable against liabilities	10	10
<b>Net value of contingent liabilities</b>	<b>(4)</b>	<b>(6)</b>
<b>Net value of contingent assets</b>	<b>2</b>	<b>2</b>

### Note 34.1 Pensions: Movements in defined benefit obligation and fair value of plan assets

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

	2011/12	2010/11
	£m	restated £m
<b>Present Value of the defined benefit obligation at 1 April</b>	<b>(35)</b>	<b>(41)</b>
Current service cost	(1)	(1)
Interest cost	(2)	(2)
Contribution by plan participants	0	0
Actuarial gain/(losses)	(2)	5
Benefits paid	1	1
Past service costs	0	3
Business combinations	(1)	0
Curtailements and settlements	0	0
<b>Present Value of the defined benefit obligation at 31 March</b>	<b>(40)</b>	<b>(35)</b>
<b>Plan assets at fair value at 1 April 2011</b>	<b>32</b>	<b>30</b>
Expected return on plan assets	2	2
Actuarial gain/(losses)	(1)	(1)
Contributions by the employer	1	1
Contributions by the plan participants	0	1
Benefits paid	(1)	(1)
Business combinations	1	0
Settlements	0	0
<b>Plan assets at fair value at 31 March 2012</b>	<b>34</b>	<b>32</b>
<b>Plan Surplus/(deficit) at 31 March 2012</b>	<b>(6)</b>	<b>(3)</b>

### Note 34.2 Pensions: Amounts recognised in the Statement of Comprehensive Income

	2011/12	2010/11
	£m	restated £m
Current service cost	1	2
Interest cost	2	2
Expected return on plan assets	(2)	(2)
Past service cost not recognised as an asset	0	(3)
<b>Total (included in employee benefits)</b>	<b>1</b>	<b>(1)</b>

### Note 35 Prior Period Adjustments

#### Prior period adjustment for donated assets and government grants

Following a change in the HM Treasury FReM, Monitor's Foundation Trust Annual Reporting Manual (FT ARM) adopted a change in accounting policy for donated assets and government grants in 2011/12. Previously grants and donations were credited to the Statement of Financial Position or reserves respectively, and released to income over the life of the asset that they fund. Under the new accounting policy, grants and donations are credited to income in their entirety upon receipt once conditions attached to them have been met. This is reflected in note 1 to these consolidated NHS Foundation Trust accounts.

As a change in accounting policy this restatement has taken effect from 1 April 2010.

Previous donated asset reserve, 1 April 2010	£742m
Restated donated asset reserve, 1 April 2010	£0

As disclosed in the Statement of Changes in Taxpayers' Equity, the balance at 1 April 2010 in the donated asset reserve has been transferred to the income and expenditure reserve and revaluation reserve to account as if the new accounting policy had always been in place.

NHS foundation trusts previously credited government grants to deferred income, within the other liabilities note. Deferred income has been changed as set out below.

Previous total deferred income, 1 April 2010	£582m
Restated total deferred income, 1 April 2010	£526m

Previous total deferred income, 31 March 2011	£720m
Restated total deferred income, 31 March 2011	£644m

Amounts that would have been previously credited to the Statement of Comprehensive Income under the new accounting policy have been transferred to the income and expenditure reserve at 1 April 2010.

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

Other prior period adjustments in the 2011/12 consolidated NHS Foundation Trust accounts arise from NHS foundation trusts in their 2011/12 accounts correcting, restating or reclassifying 2010/11 or opening figures.

Central Manchester University Hospitals NHS Foundation Trust has made a prior period adjustment at 1 April 2010 of £209m between cost and depreciation in its Property, Plant and Equipment note. This is a reclassification adjustment to reset depreciation to nil following a revaluation which took place in 2009/10.

There are no other prior period adjustments made by NHS foundation trusts in their 2011/12 accounts which warrant disclosure here.

#### 2011/12 transactions accounted for using merger accounting

During 2011/12, two NHS foundation trusts acquired/merged with the activities of two NHS trusts. These transactions are 'machinery of government transactions' as defined by the HM Treasury FReM and so merger accounting principles have been applied.

##### *Hampshire Hospitals NHS Foundation Trust*

Hampshire Hospitals NHS Foundation Trust (formerly Basingstoke and North Hampshire NHS Foundation Trust) acquired the net assets of Winchester and Eastleigh Healthcare NHS Trust on 9<sup>th</sup> January 2012.

##### *Norfolk and Suffolk NHS Foundation Trust*

Norfolk and Waveney Mental Health NHS Foundation Trust and Suffolk Mental Health Partnership NHS Trust merged on 3<sup>rd</sup> January 2012 to form Norfolk and Suffolk NHS Foundation Trust.

##### *Impact on consolidated NHS Foundation Trust accounts*

As merger accounting principles have been applied, the 1 April 2010 and 31 March 2011 Statement of Financial Position and 2010/11 Statement of Comprehensive Income (and all supporting notes) have been restated to include these restated balances and transactions.

Further information is available in the published accounts for these bodies. The summary impact on the consolidated NHS Foundation Trust accounts is as follows:

*Added to consolidated Statement of Financial Position: 1 April 2010*

	<b>Winchester and Eastleigh Healthcare NHS Trust</b>	<b>Suffolk Mental Health Partnership NHS Trust</b>
	<b>£m</b>	<b>£m</b>
Total assets	109	69
Total liabilities	(13)	(22)
Net assets	<b>96</b>	<b>47</b>

*Added to consolidated Statement of Financial Position: 31 March 2011*

	<b>Winchester and Eastleigh Healthcare NHS Trust</b>	<b>Suffolk Mental Health Partnership NHS Trust</b>
	<b>£m</b>	<b>£m</b>
Total assets	117	67
Total liabilities	(18)	(28)
Net assets	<b>99</b>	<b>39</b>

*Added to consolidated Statement of Comprehensive Income: 2010/11*

	<b>Winchester and Eastleigh Healthcare NHS Trust</b>	<b>Suffolk Mental Health Partnership NHS Trust</b>
	<b>£m</b>	<b>£m</b>
Operating income	147	87
Operating expenditure	(143)	(92)
Other SOCI lines	(4)	(1)
<b>Surplus/deficit for the year</b>	<b>0</b>	<b>(6)</b>

### **Note 36 Transforming Community Services Transactions**

These transactions represent the transfer of services between public sector bodies which are under common control and are therefore 'machinery of government changes'. These transactions meet the definition of a 'Group Reconstruction' under IFRS 3 'Business Combinations' and therefore fall outside the scope of that standard. Consequently, in accordance with the FT ARM the principles of merger accounting have been applied to these transactions as set out in Financial Reporting Standard 6 'Acquisitions and mergers' issued by the United Kingdom Accounting Standards Board.

In December 2011 HM Treasury's Financial Reporting Advisory Board approved an exemption from restatement of prior year comparatives for TCS transactions that occurred in 2011/12. Merger accounting still applies in 2011/12 so the receiving foundation trust reports a full year of results in the 2011/12 accounts regardless of which point during the year the transaction occurred.

TCS transactions occurring in 2011/12 are listed below.

<b>Name of NHS foundation trust</b>	<b>Name of the community service transferred</b>	<b>Date of the transaction</b>
2gether NHS Foundation Trust	Herefordshire PCT community service	01 April 2011
2gether NHS Foundation Trust	Gloucestershire PCT community service	01 May 2011
5 Boroughs Partnership NHS Foundation Trust	Knowsley Integrated Provider Service	01 April 2011
Airedale NHS Foundation Trust	Bradford and Airedale Community Health Services	01 April 2011
Airedale NHS Foundation Trust	North Yorkshire Community and Mental Health Services	01 April 2011



<b>Name of NHS foundation trust</b>	<b>Name of the community service transferred</b>	<b>Date of the transaction</b>
Berkshire Healthcare NHS Foundation Trust	NHS Berkshire East Community Health Services	08 April 2011
Berkshire Healthcare NHS Foundation Trust	NHS Berkshire West Community Health Services	08 April 2011
Bolton NHS Foundation Trust	NHS Bolton community service	01 July 2011
Bradford Teaching Hospitals NHS Foundation Trust	9 Community Services including Community Hospitals and Community Support Teams	01 April 2011
Burton Hospitals NHS Foundation Trust	Lichfield & Tamworth Community Hospitals	01 July 2011
Calderdale and Huddersfield NHS Foundation Trust	Calderdale PCT community service	01 April 2011
Calderstones Partnership NHS Foundation Trust	Lancaster Learning Disability Service	01 April 2011
Cambridgeshire and Peterborough NHS Foundation Trust	Peterborough Provider Services	01 April 2011
Central and North West London NHS Foundation Trust	Camden Provider Services	05 April 2011
Central Manchester University Hospitals NHS Foundation Trust	Manchester Primary Care Trust Community Services	01 April 2011
Cheshire and Wirral Partnership NHS Foundation Trust	Community Services Western Cheshire	01 April 2011
Cornwall Partnership NHS Foundation Trust	Children's Community Services	01 April 2011
Countess of Chester Hospital NHS Foundation Trust	Child & Adult Sexual Health	01 April 2011
County Durham and Darlington NHS Foundation Trust	County Durham Community Services	01 April 2011
Cumbria Partnership NHS Foundation Trust	NHS Cumbria Provider Services Arm	01 April 2011
Derby Hospitals NHS Foundation Trust	Derby City Adult Community Services	01 April 2011
Dorset Healthcare University NHS Foundation Trust	Dorset PCT community service	01 July 2011
Dorset Healthcare University NHS Foundation Trust	Bournemouth & Poole community service	01 July 2011
Great Western Hospitals NHS Foundation Trust	Wiltshire Community Health Services	01 June 2011
Guy's & St Thomas' Hospital NHS Foundation Trust	Lambeth PCT community service	01 April 2011
Guy's & St Thomas' Hospital NHS Foundation Trust	Southwark PCT community service	01 April 2011
Harrogate and District NHS Foundation Trust	NHS North Yorkshire and York PCT community service	01 April 2011
Homerton University Hospital NHS Foundation Trust	City and Hackney Community Health Services	01 April 2011
Humber NHS Foundation Trust	East Riding of Yorkshire PCT community service	01 April 2011
Lancashire Care NHS Foundation Trust	Blackburn with Darwen PCT community service	01 June 2011
Lancashire Care NHS Foundation Trust	Central Lancashire PCT community service	01 June 2011
Lancashire Care NHS Foundation Trust	East Lancashire PCT community service	01 June 2011
Lincolnshire Partnership NHS Foundation Trust	Prison Healthcare, IDTS,LD,OT and other service elements	01 April 2011
North East London NHS Foundation Trust	South West Essex Community Services	01 May 2011
North East London NHS Foundation Trust	Outer North East London Community Services	01 October 2011
Northamptonshire Healthcare NHS Foundation Trust	Northamptonshire Provider Services community services functions	01 July 2011
Northamptonshire Healthcare NHS Foundation Trust	Northamptonshire Provider Services IM&T function	01 September 2011
Northamptonshire Healthcare NHS Foundation Trust	Northamptonshire Provider Services Changing Minds service	01 November 2011
Northern Lincolnshire and Goole Hospitals NHS Foundation Trust	North Lincolnshire PCT Community Provider Services	01 April 2011
Northumbria Healthcare NHS Foundation Trust	North Tyneside PCT community service	01 April 2011
Northumbria Healthcare NHS Foundation Trust	Northumberland Care Trust community service	01 April 2011

<b>Name of NHS foundation trust</b>	<b>Name of the community service transferred</b>	<b>Date of the transaction</b>
Oxford Health NHS Foundation Trust	Oxfordshire Community Health	01 April 2011
Oxleas NHS Foundation Trust	Greenwich Community Health Services	01 April 2011
Pennine Care NHS Foundation Trust	Bury/ Oldham/ Heywood, Middleton & Rochdale/ Tameside	01 April 2011
Rotherham Doncaster and South Humber NHS foundation trust	Doncaster PCT community service	01 April 2011
Rotherham Doncaster and South Humber NHS foundation trust	Rotherham PCT community service	01 April 2011
Salford Royal NHS Foundation Trust	Salford community service	01 April 2011
Sheffield Children's NHS Foundation Trust	Sheffield PCT's Children's Services	01 April 2011
Sheffield Health and Social Care NHS Foundation Trust	Sheffield PCT Provider Services	01 April 2011
Sherwood Forest Hospitals NHS Foundation Trust	Nottinghamshire County PCT Community Services	01 May 2011
Somerset Partnership NHS Foundation Trust	Somerset Community Health	01 August 2011
South Essex Partnership NHS Foundation Trust	West Essex PCT Community Health Service	01 August 2011
South Essex Partnership NHS Foundation Trust	South East Essex PCT Community Health Service	01 August 2011
South Essex Partnership NHS Foundation Trust	Bedfordshire PCT Community Health Service	01 September 2011
South Tees NHS Foundation Trust	Redcar and Cleveland Community Services	01 April 2011
South Tees NHS Foundation Trust	Hambleton and Richmond Community Services	01 April 2011
South Tyneside NHS Foundation Trust	Community Health Services South of Tyne and Wear	01 July 2011
South Warwickshire NHS Foundation Trust	Warwickshire Community Services	01 April 2011
South West Yorkshire Partnership NHS foundation trust	Wakefield District PCT community service	01 April 2011
South West Yorkshire Partnership NHS foundation trust	Calderdale PCT community service	01 April 2011
South West Yorkshire Partnership NHS foundation trust	Barnsley PCT community service	01 May 2011
Southern Health NHS Foundation Trust	Hampshire Community Healthcare (part of NHS Hampshire)	01 April 2011
Stockport NHS Foundation Trust	Tameside Community Services	25 April 2011
Sussex Partnership NHS Foundation Trust	Hampshire CAMHS Services	01 April 2011
Sussex Partnership NHS Foundation Trust	Lewes Prison Services	01 April 2011
The Black Country Partnership NHS Foundation Trust	Walsall PCT - LD services	01 April 2011
The Black Country Partnership NHS Foundation Trust	Wolverhampton City PCT - Mental Health, Addiction, CAHMS & LD Services	01 August 2011
The Black Country Partnership NHS Foundation Trust	Dudley PCT - Children's, Young People and Families & LD Services	01 August 2011
The Dudley Group NHS Foundation Trust	Dudley Adult Community Services	01 April 2011
The Newcastle Upon Tyne Hospitals NHS Foundation Trust	Newcastle Community Health Services	01 April 2011
The Rotherham NHS Foundation Trust	Rotherham PCT - Provider arm	01 April 2011
The Rotherham NHS Foundation Trust	Doncaster PCT - Dental Services	01 April 2011
The Royal Marsden NHS Foundation Trust	Sutton and Merton Community Services	01 April 2011
University Hospital of South Manchester NHS Foundation Trust	South Manchester Community Services	01 April 2011
University Hospitals Birmingham NHS Foundation Trust	Birmingham Community Sexual Health Service	01 April 2011
Warrington and Halton Hospitals NHS Foundation Trust	Warrington PCT (Speech Therapy, Cardiac Rehabilitation, Respiratory Care)	01 April 2011
Wrightington, Wigan and Leigh NHS Foundation Trust	Bridgewater Community NHS Trust (acquired part of community services)	01 October 2011

Some of these transactions have included the transfer of assets and liabilities to NHS foundation trusts. In 2011/12, property plant and equipment of £6 million transferred to NHS foundation trusts as a result of TCS transactions. Such transfers are included in the relevant notes to the accounts. The impact upon reserves was to increase reserves by £8 million.

As a result of services having transferred, NHS foundation trusts provide additional community services in 2011/12 which is estimated to have added £2.6 billion to income compared to the prior year. This estimate is based on the increase in community services income of £1.8 billion set out in note 3.1 and an analysis of increases in block contract income for mental health NHS foundation trusts which showed £0.8 billion of increases in contracts related to community services.

Further details of each NHS foundation trust's transaction can be found in each organisation's individual accounts.

### **Note 37 Events after the reporting period**

Events after the reporting period which may have a significant impact on the consolidated Foundation Trust accounts are:

#### Additional NHS foundation trusts

As at 31 March 2012 there were 143 NHS foundation trusts. Since 31 March 2012, one NHS Trust has been authorised as a new NHS Foundation Trust:

	<b>Authorised</b>
Royal Free London NHS Foundation Trust	1st April 2012

#### Transforming Community Services (TCS)

On 1st April 2012, NHS Stockport transferred its community services to Stockport NHS Foundation Trust. The estimated impact on annual income is £30 million.

#### Mergers

York Teaching Hospital NHS Foundation Trust is assuming responsibility for the services currently provided by the Scarborough and North East Yorkshire NHS Trust with effect from July 2012. The expected value of these services is £114 million with an associated asset transfer value of £96 million.

On 1st April 2012, a significant portion of the activities, assets and liabilities of the dissolved Trafford Healthcare NHS Trust transferred to Central Manchester University Hospitals NHS Foundation Trust. The resulting increase in reserves is currently estimated to be £70 million.

### **Note 38 Related Parties**

NHS foundation trusts are public benefit corporations established under the Health and Social Care (Community Health and Standards) Act 2003. From 1 March 2007, the provisions of the 2003 Act relating to NHS foundation trusts were consolidated in the National Health Service Act 2006. The Department of Health is regarded as a related party.

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

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

	2011/12		2010/11 restated	
	Income	Expenditure	Income	Expenditure
	£m	£m	£m	£m
Value of transactions with board members	2	22	2	24
Value of transactions with key staff members	0	1	0	0
<b>Value of transactions with other related parties</b>				
Department of Health	1,182	93	1,036	93
Other NHS Bodies	32,915	2,228	27,370	2,954
Charitable Funds	35	2	72	4
Subsidiaries / Associates / Joint Ventures	30	32	15	17
Other	597	2,357	616	2,453
NHS Shared Business Services	0	21	0	22
<b>Total value of transactions with related parties</b>	<b>34,761</b>	<b>4,756</b>	<b>29,111</b>	<b>5,567</b>

	31 March 2012		31 March 2011 restated	
	Receivables	Payables	Receivables	Payables
	£m	£m	£m	£m
Value of balances (other than salary) with board members at 31 March	0	0	0	1
Value of balances (other than salary) with key staff members at 31 March	0	0	0	0
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March	7	0	12	0
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year at 31 March	(1)	0	1	0
<b>Value of balances with other related parties at 31 March</b>				
Department of Health	5	48	14	34
Other NHS Bodies	939	750	858	629
Charitable Funds	11	0	17	1
Subsidiaries / Associates / Joint Ventures	3	4	52	5
Other	125	541	112	336
NHS Shared Business Services	0	5	0	3
<b>Total balances with related parties at 31 March</b>	<b>1,089</b>	<b>1,348</b>	<b>1,066</b>	<b>1,009</b>

### Note 39 Losses and special payments

	2011/12		2010/11 restated	
	Number of cases	Value (£m)	Number of cases	Value (£m)
Total losses	48,850	23	34,885	20
Total special payments	5,410	19	5,132	12
Losses and special payments individually greater than £0.1m	44	6	7	1

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

### Note 40 Third Party Assets

The balance of patients' money held within the NHS foundation trusts' bank accounts at 31 March 2012 was £86 million (31 March 2011: £77 million). This has been excluded from the balance sheet as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.



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