

Annual Report 2006



Monitor – Independent Regulator of NHS Foundation Trusts

Annual report and accounts 1 April 2005 – 31 March 2006

Presented to the House of Commons pursuant to Schedule 2, paragraph 11(2)
of the Health and Social Care (Community Health and Standards) Act 2003.

Ordered by House of Commons to be printed 24 July 2006

Contents

Foreword from the Executive Chairman, William Moyes	5
About Monitor and NHS foundation trusts	6
Rigorous assessment	8
Spotlight: South Staffordshire Healthcare NHS Foundation Trust	10
Spotlight: Bedford Hospital NHS Trust	13
Proportionate, risk-based regulation	14
Spotlight: Peterborough and Stamford NHS Foundation Trust	18
Fit for purpose: building Monitor	22
Looking ahead	24
The Board	26
The Senior Management Team	28
Foreword to the accounts	30
Management commentary	31
Remuneration report	32
Statement of Accounting Officer's responsibilities	35
Statement on internal control	36
Certificate and report of the Comptroller and Auditor General to the Houses of Parliament	38
Financial statements and notes	40

Foreword from the Executive Chairman, William Moyes

This year has been a turning point for NHS foundation trusts and for Monitor.

The Healthcare Commission's review of the first year of NHS foundation trusts found no evidence of the disruptive impact on the NHS that opponents of the policy had predicted when the legislation was being debated, and many signs of positive features and developments: better services; better planning and financial control; generally good relationships with other healthcare organisations; and a focus on meeting the aspirations of patients. As a result of this positive outcome, in July 2005, the Government resumed the programme of referring applications to Monitor for assessment and authorisation.

However, the Department of Health recognised that many NHS trusts would require considerable preparation to enable them to meet the high standards set by Monitor to achieve authorisation. Working in partnership with the Department of Health and strategic health authorities, Monitor devised and operated a diagnostic programme in each of the twenty eight strategic health authorities. This programme has been well-received by the organisations involved and has been highly successful in defining the steps required to enable individual NHS trusts to apply successfully to be authorised as foundation trusts.

At this stage, the assessment of applicants takes up much of our time and resource. However, monitoring and intervention are increasingly important. In the long run, this is Monitor's core purpose.

How we do this is now well established. The strength of our compliance regime is the core principle that the boards of NHS foundation trusts are responsible and accountable for all aspects of the work of the organisation. It is their job to ensure that the organisation has the processes and the information to spot problems quickly and tackle them effectively. If an NHS foundation trust wishes to invest capital or develop new services, the board has to satisfy itself that the plans are affordable. And the board must ensure that local accountability to governors and members has real meaning.

A further strength of the compliance regime is that it imposes a financial discipline on NHS foundation trusts which is as tough as in any sector of the UK economy. This is vital, as the freedoms of foundation trust status bring real risks as well as opportunities. The majority have coped, and coped well, in this new operating environment. Preliminary year-end results for NHS foundation trusts in 2005-06 (based on quarter 4 returns) show that, before exceptional items, the NHS foundation trusts recorded an aggregate deficit of £8m for 2005-06. This represents 0.1% of £6.8bn total income.

However, a small number of NHS foundation trusts experienced problems during the year. This is no surprise, and demonstrates the effectiveness of our approach when problems arise; our monitoring ensures that problems are detected rapidly, and then tackled effectively. In three NHS foundation trusts a total deficit of £23m was almost eliminated within the year through early detection and action by Monitor, and effective action by the managements of the foundation trusts themselves – without disrupting the delivery of services to patients or the quality of care.

Looking to the future, NHS foundation trusts have many opportunities to develop and innovate. Two things must happen for these opportunities to be realised. Firstly, NHS foundation trusts must deliver larger surpluses, to enable them to invest in new and innovative patient services. Secondly, they must be given the freedom to innovate within a stable framework of regulation and quality inspection, and remunerated by a tariff regime that incentivises efficiency. Perhaps most important of all, the commissioning environment needs to reinforce the responsibilities of the boards of NHS foundation trusts and create an environment in which commissioners and providers can develop partnerships of equals to deliver increasingly better care to patients. This is where the lasting value of the Government's reforms will be found.



Dr William Moyes
Executive Chairman

About Monitor and NHS foundation trusts

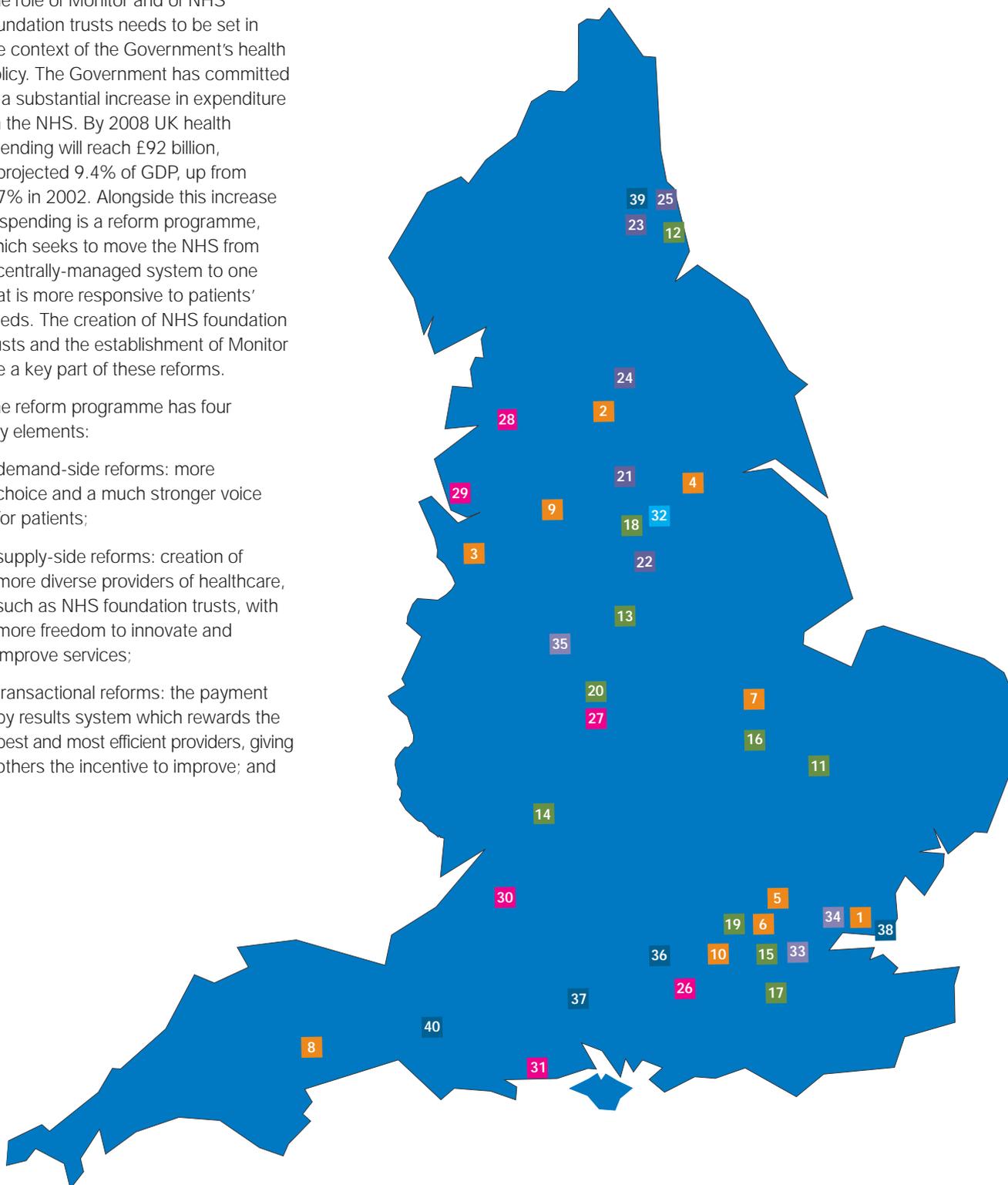
Reform of the NHS

Monitor is responsible for authorising, monitoring and regulating NHS foundation trusts. Established in January 2004, we are accountable to Parliament and independent of Government.

The role of Monitor and of NHS foundation trusts needs to be set in the context of the Government's health policy. The Government has committed to a substantial increase in expenditure on the NHS. By 2008 UK health spending will reach £92 billion, a projected 9.4% of GDP, up from 7.7% in 2002. Alongside this increase in spending is a reform programme, which seeks to move the NHS from a centrally-managed system to one that is more responsive to patients' needs. The creation of NHS foundation trusts and the establishment of Monitor are a key part of these reforms.

The reform programme has four key elements:

- regulatory and system management reforms: a new framework of regulation and management, including the establishment of Monitor, to support quality, safety, fairness, equity and value for money.
- demand-side reforms: more choice and a much stronger voice for patients;
- supply-side reforms: creation of more diverse providers of healthcare, such as NHS foundation trusts, with more freedom to innovate and improve services;
- transactional reforms: the payment by results system which rewards the best and most efficient providers, giving others the incentive to improve; and



Key to map

Authorised 1 April 2004

- 1 Basildon and Thurrock University Hospitals
- 2 Bradford Teaching Hospitals
- 3 Countess of Chester Hospital
- 4 Doncaster and Bassetlaw Hospitals
- 5 Homerton University Hospital
- 6 Moorfields Eye Hospital
- 7 Peterborough and Stamford Hospitals
- 8 Royal Devon and Exeter
- 9 Stockport
- 10 The Royal Marsden

Authorised 1 July 2004

- 11 Cambridge University Hospitals
- 12 City Hospitals Sunderland
- 13 Derby Hospitals
- 14 Gloucestershire Hospitals
- 15 Guy's and St. Thomas'
- 16 Papworth Hospital
- 17 Queen Victoria Hospital
- 18 Sheffield Teaching Hospitals
- 19 University College London Hospitals
- 20 University Hospital Birmingham

Authorised 1 January 2005

- 21 Barnsley Hospital
- 22 Chesterfield Royal Hospital
- 23 Gateshead Health
(authorised 5 January 2005)
- 24 Harrogate and District
- 25 South Tyneside

Authorised 1 April 2005

- 26 Frimley Park Hospital
- 27 Heart of England
- 28 Lancashire Teaching Hospitals
- 29 Liverpool Women's
- 30 The Royal National Hospital for Rheumatic Diseases
- 31 The Royal Bournemouth & Christchurch Hospitals

Authorised on 1 June 2005

- 32 Rotherham

Authorised 1 May 2006

- 33 Oxleas
- 34 South Essex Partnership
- 35 South Staffordshire Healthcare

Authorised 1 June 2006

- 36 Royal Berkshire
- 37 Salisbury
- 38 Southend University Hospital
- 39 The Newcastle Upon Tyne Hospital
- 40 Yeovil District Hospital

NHS foundation trusts: freedom and autonomy

While NHS foundation trusts remain public organisations, they are free from central government control. They have autonomy: they set their own strategies and make their own decisions, within a framework of local accountability.

Because NHS foundation trusts are not directed by the Department of Health or performance-managed by a strategic health authority, the board of directors is responsible for the performance and success of the organisation. They must focus on leading it, overseeing performance, setting strategy and assessing and managing risk.

NHS foundation trusts have new accountabilities. They are accountable to Monitor through the terms of authorisation, which details the conditions under which they operate. They are accountable to their commissioners, through legally-binding contracts. And they are accountable to their local community through the members who are drawn from patients, staff and the public. Members elect the majority of positions on the trust's board of governors, which in turn has a number of key responsibilities including appointing the chair and non-executive directors.

NHS foundation trusts are responsible for their own budget. If they manage this well, they can borrow commercially or use their surpluses to fund investment. However, there is no safety net: if they fail, they can become insolvent.

Monitor: risk-based regulation, rigorous assessment

Monitor has two core functions: to assess and authorise as NHS foundation trusts those applicants that meet the criteria and to operate a proportionate risk-based compliance regime, intervening where necessary.

Monitor has a number of statutory duties which underpin these core functions. These include setting limits on borrowing for each NHS foundation trust, specifying the financial reporting framework, overseeing a cap on each foundation trust's income from private patients and maintaining a public register of NHS foundation trusts.

Alongside our core functions, we also contribute to and influence the NHS reform programme. By doing this, we can ensure the operating environment gives NHS foundation trusts the opportunities to make the best use of their freedoms and offer innovative and improved services to patients.

Rigorous assessment

In 2004 Monitor established a method and criteria for assessing applications for NHS foundation trust status. The process is robust and challenging. It ensures that only those organisations that are capable of shouldering the new responsibilities that come with greater freedoms are authorised.

We assess each applicant's five-year business plan and governance arrangements and examine whether an applicant is:

- **legally constituted:** is their constitution appropriate and does it comply with the Health and Social Care (Community Health and Standards) Act 2003, which established foundation trusts?
- **well-governed:** does the board have an appropriate mixture of skills and is their strategy and business plan comprehensive and realistic?
- **financially viable:** is this evidenced through both the short-term working capital review and the five-year business plan?

Assessment and authorisations

Monitor authorised six new foundation trusts from 1 April 2005 and another one on 1 June. The low number of authorisations during the year was due to a moratorium on new applicants being passed to Monitor while the Healthcare Commission conducted a review of foundation trust policy. This fulfilled the Government's commitment, made during the passage of the legislation, to learn lessons from the first NHS foundation trusts. The report, while noting that the first foundation trusts had been operating for less than a year, concluded that they were making progress in developing new services and improving accountability to their local populations.

The next group of applicants was passed to Monitor with the Secretary of State for Health's support in January 2006. Among the 18 new applicants were the first mental health trusts to apply for foundation trust status.

The first three successful mental health applicants were authorised from 1 May 2006:

- Oxleas NHS Foundation Trust;
- South Essex Partnership NHS Foundation Trust; and
- South Staffordshire Healthcare NHS Foundation Trust.

All the current NHS foundation trusts are listed on page 6.

A further group of five trusts were authorised from 1 June 2006. They included three trusts whose applications had previously been deferred by Monitor in early 2005. An application is deferred by Monitor's Board where there are aspects of the application which do not meet Monitor's criteria, but which can be addressed within a reasonable timescale by further action from the trust.

The authorisation of Yeovil District Hospital NHS Foundation Trust shows how an applicant can use a period of deferral to improve its financial and governance position. As East Somerset NHS Trust it originally applied for authorisation in autumn 2004. At the time its business plan included a £30m capital investment programme to create additional capacity through refurbishment of existing buildings and development of a new outpatients' centre. Monitor questioned the affordability of the scheme and the application was deferred while the trust undertook a further review of its forward plans.

During the period of the deferral the trust worked with external advisers. Together they identified considerable scope for efficiency within internal processes which would allow length of stay to be reduced and achieve improvements in operating theatre and bed use, as well as identifying other financial savings. When the trust reapplied to Monitor in spring 2006, the proposed £30m capital investment had been considerably scaled back. The trust outlined how it could achieve its desired improvements in services through greater efficiency and improve the existing buildings through more modest incremental expenditure.

The trust and its main commissioner expect to be one of the first health economies in the country to achieve the 18-week treatment target. Monitor's confidence in the application was also enhanced by two new non-executive director appointments with greater commercial experience. The application was approved and the trust was authorised as Yeovil District Hospital NHS Foundation Trust from 1 June 2006.

Revising the assessment process

The moratorium on new applications during 2005 enabled the guidance given to applicants on the assessment process to be reviewed. The structure of Monitor's application process remained unchanged but we worked closely with the Department of Health to produce a joint guide for applicants. This covers the entire application process, including the Department's development phase that applicants must undergo to receive the support of the Secretary of State. Only with this support can they then formally apply for assessment by Monitor. Although the two phases are separate, the joint guide provides a comprehensive manual to the entire process and helps applicants

prepare more effectively. The process has also been made simpler by incorporating a standard financial model which is used by applicants throughout both phases of the assessment process.

Another area where improvements were made concerned the applicant's constitution. Each applicant must have a constitution that complies with the Health and Social Care (Community Health and Standards) Act 2003. Over the past two years each applicant had been developing their constitution separately and each has therefore had to be reviewed separately by Monitor. This has been costly and time-consuming for us as well as applicants.

Last year we developed a model core constitution that meets the requirements of the Act. All current and future applicants are now required to base their constitutions on this model and explain fully any additions or amendments they make. The model was distributed in early 2006; this pre-approved template should help applicants and also ensure that our assessment process becomes even more rigorous, efficient and cost-effective.

To enable mental health trusts to apply for NHS foundation trust status, we also reviewed the assessment process from this perspective. Although they share many similarities with acute trusts, mental health trusts have some fundamental differences, notably the absence of a payment by results system.

The review indicated that the fundamentals of the assessment process should remain the same although a different approach is required to the evaluation of future income. Also mental health applicants need to take extra care in drawing up membership criteria and consider carefully how to enable service users to participate in elections. Monitor's guide for mental health trusts, *Applying for NHS Foundation Trust Status: Guide for Mental Health NHS Trusts*, has recognised these issues and suggested ways to address these challenges.

We subject applicant foundation trusts to a disciplined and challenging process that puts greater scrutiny on applicants than they have had before.

Spotlight South Staffordshire Healthcare NHS Foundation Trust

One of the first mental health trusts to be authorised by Monitor is South Staffordshire Healthcare NHS Foundation Trust. Its Chief Executive, Mike Cooke, talked about the assessment process. "I think we realised quite early on that Monitor's bar for authorisation is a lot higher than the one set by the Department of Health in the development phase. They were entirely different things."

Mike acknowledges there are differences between mental health and acute trusts. "One of the biggest differences regards the public stigma surrounding many of our services – in particular, the public fear and risk around our more secure services... What impressed me most was that Monitor's people spent months looking at the mental health candidates in real detail. They really scrutinised the way we work with health and social care. These are complicated, sophisticated relationships, and they worked very hard to understand them properly."

Building up the business

With the guidelines refined for mental health trusts, it was time to start the assessment process. Mike describes the process. "Monitor's assessment phase tested us at a whole new level: it really gets you match-fit."

"We spent a good nine months building up our business side. Although the mental health sector has always been very good at working across organisations and giving good service user experience, the financial and forecasting sides have traditionally been lacking, so we knew we needed to go up two gears. That said, although most of our income comes from block contracts, we also have contracts with prisons across the country, so we do have some insight into the commercial side."

Going the extra mile

"Nevertheless, we beefed up our board, hiring people with lots of commercial and business development experience, and sent everyone on a major development programme – our 'going the extra mile' programme. I now get given a much tougher time by my board – we have much better debates."

Monitor had also identified that extra work is needed from mental health trusts to recruit service users to their membership base. Mike explains how his trust tackled the challenge. "You have to be quite exhaustive to make it work properly. We produced easy-read versions of our literature, we did a lot of media work, we talked to patients, we had a big AGM and we did a large mail drop. We also held 88 consultations. Some of these were aimed at interest groups, such as MIND, while others piggy-backed onto existing community meetings."

"We wanted to reduce the stigma attached to service users so we merged the patient and general public memberships, then we used special voting technology to help us involve members in the elections. Now we have 9,000 members; service users and full-time carers form a quarter of our membership council and our membership offices are staffed by people in supported employment."

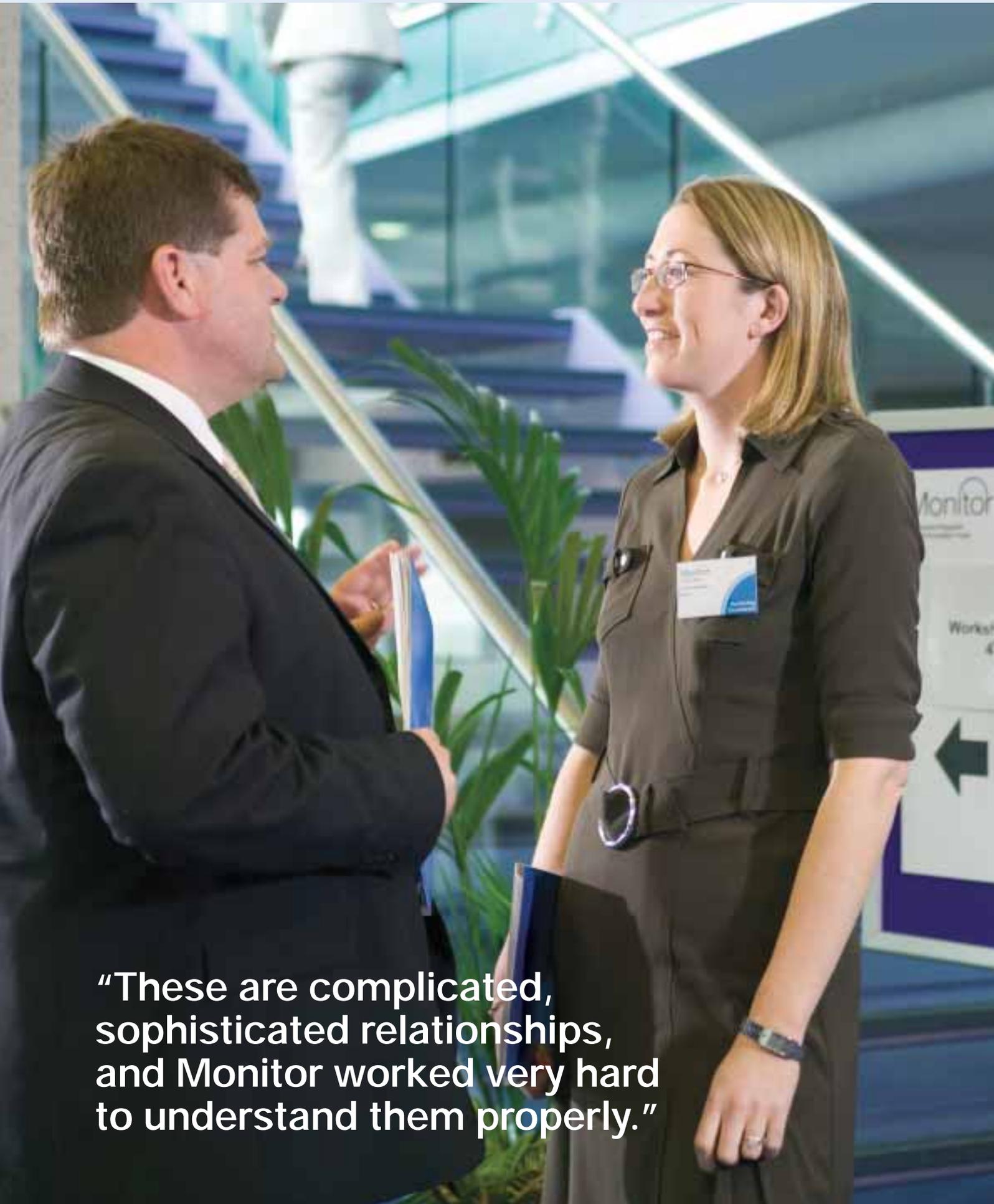
The future

Now that South Staffordshire has been authorised, Mike is full of ideas for the future. "The process was quite tough and I think we're a better organisation for having gone through it. Now we want to make the most of it."

"I like the fact that we can take a long-range approach, without having to balance on a sixpence every year. So we want to reduce the stigma attached to mental health issues and create some really good joined up services to give service users different pathways and choices – for mental health it's not just when and where, but who and why as well. I also think we can provide an excellent service to people in prison and there's a lot of opportunity to work with schools and employers."

"We're very proud to be one of the first mental health foundation trusts – I feel like Cinderella is finally going to the ball! This is an opportunity to get mental health services up there and noticed. Ultimately we want to be one of the best service providers, not just in mental health, but across the whole NHS."

"Monitor's assessment phase tested us at a whole new level: it really gets you match-fit."
Mike Cooke



“These are complicated, sophisticated relationships, and Monitor worked very hard to understand them properly.”

Rigorous assessment continued

High quality applications

The Government wants all NHS trusts to be able to apply for NHS foundation trust status as soon as possible.

To achieve this, and for the long-term growth and sustainability of the sector, high quality applicants are needed.

To help NHS trusts identify the key areas to address to get them in a position to apply for NHS foundation trust status, Monitor has worked in partnership with the Department of Health, strategic health authorities and trusts to develop and deliver the Whole Health Community Diagnostic Programme.

This programme is based on Monitor's NHS foundation trust assessment process. The diagnostic examines NHS trusts' financial, management and governance arrangements through various submissions, targeted interviews and a final validation process. There is also an SHA-wide diagnostic element to check the consistency of trust plans with health community partners and to provide a focus on SHA-wide planning.

The programme has identified the work required for NHS trusts to apply for foundation trust status. Typically this would include improving productivity

and efficiency, enhancing strategic planning and strengthening organisation capacity and capability. In some cases, the programme may also require specific action from the Department of Health (such as looking at the issues around accumulated deficits in a number of NHS trusts) and strategic health authorities (for example, providing strategic direction in relation to service reconfiguration). Whichever organisation holds responsibility, action plans must be followed up in order to achieve the primary objective of well-managed trusts with strong finances applying for foundation trust status.

The primary objective [is] well-managed trusts with strong finances applying for foundation trust status.

Spotlight Bedford Hospital NHS Trust

In January 2006, Bedford Hospital NHS Trust began the Whole Health Community Diagnostic Programme.

Helen Nellis, Bedford's Chair, describes the benefits for her trust: "The diagnostic programme went into a tremendous amount of detail: it looked at our business plan and clinical service strategy, as well as our finances, governance and performance. It examined how well we manage our external relations and whether external partners, such as strategic health authorities (SHAs) and primary care trusts (PCTs), have signed up to our strategy. And it was also very helpful in getting the PCTs to sit down with us and plan the future together. We were able to make some good, solid plans and some realistic projections about our activity and income.

Focusing minds

"As the programme occurs over a fixed period of time, it forced us to drop everything and work through a lot of issues that would otherwise have taken a lot longer. In that respect it was very good for us. We had this time to look very hard at our service strategy and this really made us think about what services we should be offering in the future. These are challenging times and this process and this period have made us far more radical in our strategic planning."

At the end of the programme, the hospital board meets with the SHA board team to discuss the final diagnosis and explore the key issues it has identified. Helen explains how it works. "The diagnosis goes through each area, saying what we need to do to become a foundation trust. For example, a couple of years ago we had budget problems and are currently in the second year of a recovery plan: the diagnosis reinforced the need to get our projections right, stick to them and establish a good track record."



Helen Nellis, Chair of Bedford Hospital NHS Trust, with Pam Murphy, Departmental Ward Sister

Turning plans into actions

After the meeting, the trust is responsible for drawing up an action plan and agreeing this with its SHA. "The action plan outlines how you'll address these points and move forward," says Helen. "I think it's important for trusts to take ownership and press on with things themselves. After all, this is our process, it'll be our application and so we should decide what approach to take. We're developing a project plan to take us from here to our foundation trust application in a year's time. This will address everything in the diagnosis, with milestones, timescales and allocated lead personnel."

Helen also believes that the diagnostic programme gave a helpful insight into the discipline required to become a foundation trust. "It introduced the long term financial modelling that's necessary for foundation trust status. It's really good how it forces you to move your thinking on from the NHS way of doing things and, instead, operate as you would in the private sector.

Towards better business discipline

"To be honest, the business side is one of the main reasons we want to become a foundation trust. We like the discipline it requires - discipline that any good organisation should already be practising. We'd already decided for ourselves that we had to take this direction to become a successful trust, irrespective of whether we become a foundation trust. It's definitely a hard regime, but we're already on a challenging financial recovery programme and this is just the next logical step. It's going to be tough to be a medium-sized district general hospital in this new world so we need to be lean and mean to deliver both quality and value for money."

But Bedford also has other reasons for wanting to become a foundation trust. "We want the autonomy to get on with our work with minimal interference and we like the way it will bring us closer to our community and staff. Bedford is undergoing huge population development and we want to play an active role in its regeneration. So for all these reasons we found the diagnostic programme tough but very worthwhile: we welcomed the scrutiny because we want to make sure that we can run a foundation trust that can deliver all this for our community and our patients and our staff."

Proportionate, risk-based regulation

Overview

The detail of our regulatory process is set out in the *Compliance Framework*, which was published in March 2005. The past year has therefore been the first in which the framework has operated fully. The test of its effectiveness is whether it allows NHS foundation trusts to operate with sufficient autonomy while remaining compliant with their terms of authorisation, but with any problems identified swiftly and addressed rapidly. The evidence from the past year is that it has been successful in this aim.

The regulatory framework

When a trust is authorised as an NHS foundation trust, they are given their terms of authorisation; these terms detail the conditions under which they must operate and include:

- a requirement to operate efficiently, effectively and economically;
- a requirement to remain at all times a going concern;
- a private patient cap to limit the proportion of total patient income from private patients;
- a borrowing limit which reflects the financial risks the NHS foundation trust faces; and
- a duty to cooperate with local partners in the NHS.

If an NHS foundation trust is in significant breach of its terms of authorisation, we can intervene, if it is appropriate to do so.

Each NHS foundation trust must submit an annual plan to Monitor, outlining how it expects to perform over the next year. After careful assessment of the plan, we then set risk ratings in three areas: finance, governance and mandatory services. When assessing the plan we look at:

- the likelihood of a financial breach of the terms of the authorisation in the first year of the plan. The financial rating has four major criteria: achievement of plan; underlying performance; financial efficiency; and liquidity;
- if the trust is still legally constituted, locally representative and effectively led, including ensuring compliance with national healthcare targets and standards; and

- whether it can fulfil its clinical contractual obligations.

We then judge the risk of an NHS foundation trust breaching its terms of authorisation in each of these areas and allocate risk ratings accordingly.

The NHS foundation trusts then submit quarterly reports to us, so we can assess their progress against plan and ensure they are not in significant breach of their terms of authorisation. Where problems arise, we act swiftly to identify the underlying causes of the problems and ensure they are being addressed. Wherever possible, we work closely with a trust to help it get back on track. However, if a trust is not dealing appropriately with their problems, we can formally intervene in the running of the trust.

This framework ensures that our approach to regulation is proportionate and risk-based; successful trusts require and receive less attention than those with problems.

In December 2005, we commissioned Dr Foster to carry out research among NHS foundation trusts about our approach to regulation.

The research found that most NHS foundation trusts had generally positive views on Monitor's approach, and there was acknowledgement of the proportionate nature of the approach. Importantly, most trusts reported that they spent the same amount of time on reporting and have incurred no additional costs on this activity, compared to when they were NHS trusts.

The research also highlighted that NHS foundation trusts felt that their relationship with Monitor was characterised by openness and trust, with a mature and helpful response to reported problems.

Our approach to regulation is proportionate and risk-based; successful trusts require and receive less attention than those with problems.

Strong performance

Over the past year, this risk-based and proportionate approach to regulation has delivered NHS foundation trusts that are predominantly well-managed, financially stable and fulfilling their duties to patients.

Preliminary year-end results for NHS foundation trusts in 2005-06 (based on quarter 4 returns) show that, before exceptional items, the NHS foundation trusts recorded an aggregate deficit of £8m for 2005-06.

This represents 0.1% of £6.8bn total income. The deficit before exceptional items provides the best basis for comparison with other NHS organisations.

After exceptional items the NHS foundation trust sector incurred a deficit of £24m for 2005-06, marginally behind the deficit of £20m forecast in annual plans prepared at the beginning of the financial year.

This strong performance can be attributed principally to the rigours of NHS foundation trust status; operating autonomously but within a regulatory framework which helps them to identify and tackle problems rapidly.

Monitor will report in more detail on performance in the *Review and Consolidated Accounts of NHS Foundation Trusts 2005-06*, to be published autumn 2006.

Sound turnaround

The three NHS foundation trusts which incurred the greatest deficits in 2004-05 showed substantial improvements in performance during 2005-06.

The aggregate deficit at Bradford, Peterborough and Stamford, and Royal Devon and Exeter has reduced from £23m in 2004-05 to £4m in 2005-06.

...strong performance can be attributed to the rigours of NHS foundation trust status... operating autonomously but within a regulatory framework which helps them identify and tackle problems rapidly.

We worked closely with Peterborough and Stamford, and Royal Devon and Exeter, to ensure that suitable action was being taken to address their deficits. By the end of 2005-06, they were making sound progress. The figures for Peterborough and Stamford showed a deficit falling from £7.7m in 2004-05 to £1m in 2005-06. At Royal Devon and Exeter the turnaround was from a £7.3m deficit in 2004-05 to a £0.5m surplus in 2005-06.

We described in our annual report last year why the particular financial position at Bradford Teaching Hospitals NHS Foundation Trust led to us using our formal intervention powers. We also noted in that report that the resulting changes made at the hospital "allowed the foundation trust to take more effective action to improve its financial position". This was borne out by the performance in 2005-06. Under new leadership and with our help, Bradford's position improved rapidly with the 2005-06 result being a £3m deficit.

Close supervision

Our experience in overseeing the turnaround at those three organisations is now being applied at University College London Hospital (UCLH). A combination of factors, some linked to the move to a new site, caused considerable problems for UCLH. As a result, in 2005-06 it posted a deficit of £36 million; much larger than had been predicted by the trust. We have been closely scrutinising the trust's progress during the year. Since it has enough liquidity to continue business and the Board continues to cooperate closely with Monitor, to date, statutory intervention has been considered unnecessary, although the scale of the deficit ensures that this assessment is reviewed on a regular basis.

At our request, their Board has engaged expert turnaround advisers who have helped the Board develop an effective recovery plan. Monitor continues to study the situation very closely to ensure that the plan is being implemented in an effective and timely way.

Transparency

Underpinning Monitor's approach to regulation is an emphasis on openness and transparency. This applies both to the relationship which we have with the foundation trusts we regulate and the reporting framework.

The financial reporting framework for NHS foundation trusts draws principally on the reporting system used for commercial organisations, being based on UK GAAP (generally accepted accounting practice). This is appropriate given the autonomous position of foundation trusts, with the freedom to borrow and to retain surpluses, but without the access to "brokerage" arrangements which have been a feature of NHS accounting.

As part of our commitment to greater transparency we publish quarterly reports on the performance of the NHS foundation trusts, based on the monitoring reports which they are required to send to us. The reports provide aggregate information on financial performance, highlight the risk ratings for each foundation trust and comment on emerging themes.

Spotlight Peterborough and Stamford NHS Foundation Trust

Events at Peterborough and Stamford NHS Foundation Trust demonstrate the success of Monitor's regulatory approach. A combination of factors – including the need to replace staff serving in Iraq, the consultants' contract and withdrawal of funding support for a major PFI scheme – meant that the small deficit forecast for 2004-05 was rapidly overtaken by reality.

Chris Banks, Peterborough's Chief Executive, explains: "You always get ups and downs but this was a whole lot of downs in one year. Having planned to break even we found very early in the year we were overspending by £500,000 per month. We went to see Monitor straightaway. If you're in trouble in a regulated industry then you've got to get the regulator involved early on because it's in both your interests to get it sorted."

Changing the mindset

Peterborough was immediately asked to provide monthly financial information and re-examine their financial reporting. As Chris says, "The way we looked at our finances dated from our days as an NHS trust and that needed to change quickly. Cash and cash-flow become much more important when you're a foundation trust and we also had to re-examine how we monitored and reported our income and expenditure. Once we changed our processes, we began revising our plan so it reflected the real world more accurately.

"It was a very uncomfortable time: we'd only just been authorised and here we were with this enormous problem. I'm sure Monitor also thought it was less than ideal but they were always very constructive and businesslike. They challenged our assumptions, which clarified our own thinking, and while they gave some useful steers it was always made very clear that this was our hospital and our problem, and we would be the ones to sort it out."

After a couple of months, the trust presented Monitor with its proposed recovery plan. Chris added: "They highlighted some angles we hadn't covered and helped us to ensure it was more robust. This made some savings, but we still finished 2004-05 with a £7.7 million deficit, which was obviously far worse than originally planned."

Towards recovery

Entering 2005-06, Peterborough renegotiated its overdraft and continued implementing its revised recovery plan, reducing length of stay, cutting beds, using its operating theatres more efficiently and rationalising administrative costs as part of a wide-ranging service improvement programme.

A few months later, with costs coming under control, Monitor re-examined the plan and recommended that the trust hire some expert external advisors to help find more savings. The plan is working: Peterborough's unaudited deficit for 2005-06 was just under £1 million – a robust turnaround from the £7.7 million deficit just a year before.

Looking back, Chris says; "It's been a tough experience, but also a good one. Everyone here has given a good account of themselves: the staff and unions all got behind us, even if they didn't necessarily like what we had to do. Monitor kept us focused on the job in hand, gave us good advice and helped us change our mindset. They brought a good business discipline to bear on the issues at hand and they always got right to the point. Monitor were always pushing to see progress being made and made us ask ourselves whether we were working fast enough and facing the right issues. In fact, I was pleased that my board and executive team were willing to take the tough decisions: we had no choice – we were losing money and we just had to get that under control."

Better, stronger, more productive

Chris also believes that Peterborough is now in a stronger position. He says; "Understandably, there was a lot of public concern over the reduction in beds. Actually, even though we were cutting costs, we exceeded or met all our key targets last year. We handled this winter better than the one before: everyone who needed a bed got one and waiting times fell sharply – a local journalist even advised visitors not to sit on a bed too long in case they found themselves under the knife! We're now much more on top of our finances and we're hoping – hoping – to finish this coming year with a small surplus."

"Monitor were always very constructive and businesslike. They challenged our assumptions which clarified our thinking."

Chris Banks



“It’s been a tough experience, but also a good one. Everyone here has given a good account of themselves.”

Proportionate, risk-based regulation continued

Reviewing the framework

We remain committed to reviewing our approach to regulation to ensure that it continues to create an environment in which NHS foundation trusts can deliver high quality performance.

At the heart of each NHS foundation trust's responsibilities is the obligation to deliver high quality care to patients, meeting the national standards for clinical quality laid down by Government, and achieving the national performance targets. During 2006 we have proposed a refinement to the *Compliance Framework*, via a consultation paper, to give greater prominence to this responsibility.

In this consultation document, we also responded to NHS foundation trusts' concerns that the regulatory framework was too prescriptive over breaches of non-financial targets, which results in a downgrading of their governance risk rating.

We have suggested a revised governance rating system which gives greater priority to key national targets and incorporates tolerances around the failure to meet targets. The consultation closed in June 2006 and we will be publishing the amended *Compliance Framework* in the autumn.

Ensuring good governance

Monitor's regulatory approach firmly gives the responsibility for the running of the organisation to the board of directors. This demands that the boards of NHS foundation trusts operate to the highest standards of corporate governance.

To help boards develop in this area, we published a draft code of governance for NHS foundation trusts. This builds on the principles and provisions set out in *The Combined Code of Corporate Governance*, which outlines standards for private sector best practice.

The draft code was published for consultation in December 2005. We received over 70 responses from a wide range of organisations and these are now being reflected in the final version, to be published later this year.

NHS foundation trusts are operating in a new, more commercial environment which brings opportunities as well as risks.

Promoting best practice

NHS foundation trusts are operating in a new, more commercial environment which brings opportunities as well as risks. To help them adapt, we have produced two short guides. *Risk Evaluation for Investment Decisions by NHS Foundation Trusts* sets out robust decision-making processes for major investments, so that foundation trusts can carefully evaluate the risks involved.

Managing Operating Cash in NHS Foundation Trusts provides best practice advice for investing surplus operating cash that may be needed to support current operations. It offers information to help ensure that short-term investments are sufficiently liquid and generate a competitive return without unnecessary risk.

Extending learning

Recognising that moving to NHS foundation trust status represents an imposing change for many executives, we are laying the foundations to help them improve their skills.

Working closely with the Foundation Trust Network, we have developed a learning programme which will enable boards of NHS foundation trusts to benefit from access to advice from some of Britain's leading companies, across a range of corporate disciplines.

In a project we have initiated with the Department of Health, we are working with the NHS Institute for Innovation and Improvement to develop a training course for finance directors in the NHS. The programme will provide all finance directors and their deputies with the skills required in the reformed health service.

Fit for purpose: building Monitor

Still less than three years old, Monitor is building itself into a small, adaptable organisation that takes the best people and values from both public and private sectors. This process is now well advanced: in 2005 we developed our organisational structure and filled most of our permanent positions growing from a permanent staff of 33 at the start of the year to 51 by the year end.

We have refined our pay and grading framework, as well as our performance management and appraisal processes, to link compensation closely to individual performance. We have also developed 'The Deal'. This is a statement of what it means to work at Monitor and is the product of detailed discussions with, and input from, our employees. While we must work hard to live up to the standards set by 'The Deal', it already underpins our human resources policies and performance appraisal systems.

The open and frank approach which we apply to our dealings with NHS foundation trusts has also been applied to our own activities. We engage actively with stakeholders, in Government, other public bodies and the NHS, keeping them informed of our activities through briefings, presentations and publications. The minutes of our Board meetings are detailed and are published promptly on our website. We also adopt an open approach within the organisation, engaging staff on issues, keeping them informed and listening to their views.

Effective finance and risk controls

As our regulatory framework demands that NHS foundation trusts make realistic budgets and forecasts and stick to them, we must do the same and have therefore set up robust systems of financial control. In 2005-06, we delivered our work within our budget (see page 31 for breakdown).

We also need to manage our own risk as effectively as the NHS foundation trusts we regulate. We have developed our risk management processes, which automatically update our risk profile, and have standardised our risk reports. This will promote informed and effective decision-making and help our auditors conduct targeted, risk-based audits. More detail on these processes and procedures can be found on page 36.

Work is also underway on a new IT system that will streamline and standardise much of our regulatory work. This extra capacity will enable us to deal with many more NHS foundation trusts without compromising our rigorous regulatory framework and the high standards for which we are already recognised.

We believe that the progress we have made in hiring staff, building systems and developing our culture has taken us a long way towards becoming an efficient and focused organisation that is fit for purpose and will help develop the health system that is needed. As a young and evolving organisation, we intend to build on this strong start.

"Monitor is a young organisation, so it's changing all the time. But despite this, the culture's still the same – that of a professional organisation with a good reputation for dealing with people with honesty, openness and transparency."

Victoria Corbishley, Senior Compliance Manager

Old and new perspectives

After five years working at the law firm Freshfields Bruckhaus Deringer, Tepo Din joined Monitor in December 2005 as Senior Legal Adviser.

He explained why he joined Monitor: "I wanted a change, but I also wanted to use the skills I had. I'm very interested in politics and government and I liked the idea of being part of something small and new, but growing – certainly in reputation and influence. And while Monitor has that private sector drive and buzz, there's still a real public service ethos."

Tepo's work at Monitor is wide-ranging: "I advise staff and the Board on all types of issues, ranging from procurement to policy development. Because I work across different areas,

I find myself involved in strategy, assessments, compliance and governance. The breadth of the role is one of the most challenging and enjoyable things about it".

Victoria Corbishley is a Senior Manager in Monitor's compliance team, regulating NHS foundation trusts. She joined in August 2004 after working at PricewaterhouseCoopers: "I wanted to make a contribution to society: in this job, I can see the end goal and that gives me more emotional buy-in."

"I also wanted a better work-life balance. Obviously, during the busy times you've got to be here and do the work. The difference is that at quieter times you might choose to work from

home. There's definitely more balance here: there has to be, because I'm a single mother with a small daughter – if it didn't work then I couldn't be here."

Victoria explains what she enjoys about her work: "First, although there's a framework in which foundation trusts operate, each one takes its own approach to specific issues, and it's these different nuances that make my job interesting. Second, of course, is that Monitor is a young organisation, so it's changing all the time. But despite this, the culture's still the same – that of a professional organisation with a good reputation for dealing with people with honesty, openness and transparency."



Looking ahead

We have published a corporate plan for Monitor, setting out the challenges which we believe we will face over the next three years, and the goals which we have set ourselves. A key theme of the plan is that our core function is regulation – ensuring that NHS foundation trusts continue to meet the obligations placed on them.

Completing the regulatory system

Over the next year we will further develop our *Compliance Framework*, taking into account feedback from our recent consultation on clinical quality and service performance.

We expect to face a significant failure of an NHS foundation trust at some point in the future, whether through insolvency or as a result of clinical or governance weaknesses. Although Monitor has broad powers to intervene, policies and rules surrounding insolvency have yet to be agreed. We will continue to work with the Department of Health on this.

We also expect consolidation and corporate activity among foundation trusts via mergers or acquisitions and joint ventures. While our merger policy has now been finalised, work is still needed to establish frameworks for other forms of consolidation and to assess and address any impact on local competition and patient choice.

Challenges for NHS foundation trusts

NHS foundation trusts must continue to embrace their new freedoms and strive to achieve more.

As reforms such as patient choice and payment by results take a greater hold, NHS foundation trusts need to look at areas where they can improve their clinical efficiency. For example, reducing the number of avoidable emergency hospital admissions and increasing the number of day-case operations will help trusts make greater use of their resources.

In turn, this will help NHS foundation trusts to deliver larger surpluses. This is vital if they are to be able to invest in new and innovative services for patients.

To support increased expansion of the foundation trust sector, getting commissioning right is of paramount importance. Commissioners play a crucial role in the success of system reform. They are pivotal to managing overall system affordability and stability; strong commissioners provide the counterweight to strong providers.

Review of regulation

The increasingly diverse range of healthcare suppliers now requires a regulatory framework that addresses new issues, such as the optimum level of regulation in the NHS, barriers to entrance and exit management. The framework must also clarify the different roles of regulator, inspector and government.

The focus of our work will remain on ensuring that NHS foundation trusts are professionally managed and financially strong.

These issues are currently under consideration in the Department of Health's Wider Review of Regulation of Health and Social Care. Our submission to the review argued for a quality inspector that would inspect, measure and report on clinical performance, and a separate, independent regulator to ensure an effective, efficient health sector. This arrangement would eliminate any risk of patient care being compromised by concerns over affordability. Over the next few months, the review will be an important area of work for us and we

will continue to work with the review team, offering our views and advice when required.

While the review may have far-reaching consequences for Monitor, the focus of our work will remain on ensuring that NHS foundation trusts are professionally managed and financially strong. This will enable them to deliver the best standards of care that are demanded of the NHS by patients, while achieving the high levels of financial rigour which taxpayers expect.

The Board



Ms Jude Goffe (Non-Executive Director)

Jude was appointed for a period of four years from 12 July 2004 and is Chair of Monitor's Communications Steering Group.

A venture capital and corporate advisor, Jude was previously non-executive director at Moorfields Eye Hospital NHS Foundation Trust, prior to taking up her role at Monitor. She was also a non-executive member of the board of the Independent Television Commission (ITC). Between 1984 and 1991 she was employed by the 3i Group plc in a number of investment roles, culminating in the position of Investment Director. Jude is a chartered accountant by profession.

Mr Christopher Mellor (Deputy Chairman)

Christopher was appointed for a period of three years from 10 May 2004. He is Chair of Monitor's Audit Committee, Remuneration Committee and Nominations Committee.

Christopher is also Non-Executive Chairman of Water Services in Northern Ireland and a non-executive director of CarlBro UK Ltd. He retired as Chief Executive of Anglian Water Group plc in March 2003, after 13 years with the company. Previously he was a non-executive director of Addenbrooke's NHS trust between 1994 and 1998, where he was Chair of the Audit Committee. Christopher was also a member of the Government's Advisory Committee on Business in the Environment.

Dr Penelope Dash (Non-Executive Director)

Penny was appointed for a period of four years from 10 May 2004. She resigned as a non-executive director on 8 April 2006.

Penny holds a range of positions as a freelance healthcare strategy consultant and advisor, working for a number of organisations across the NHS, private and voluntary sectors. She was previously Head of Strategy and Planning at the Department of Health until 2001. She started her career as a doctor in hospitals in London and is a member of the Royal College of Physicians. Penny worked for Kaiser Permanente and the Boston Consulting Group in the United States.

Board and committee attendance during the year ended 31 March 2006

	Board	Audit (A)	Remuneration (R)	Nominations (N)
Number of meetings held in year	12	3	2	1
Number of meetings attended in year: (letters after name indicate committee membership)				
William Moyes (A,R,N)	11	3	2	1
Christopher Mellor (A*, R*, N*)	11	3	2	1
Penny Dash	11	–	–	–
Jude Goffe	12	–	–	–
Kate Nealon (A,R)	8	3	2	–
* indicates Committee Chairman				



**Ms Kate Nealon
(Non-Executive Director)**

Kate was appointed for a period of three years from 10 June 2004, and she is a member of Monitor's Audit Committee and Remuneration Committee.

Kate is also a non-executive director with HBOS plc. Previously she worked for Standard Chartered, latterly as Group Head of Legal and Compliance from 1992 to 2004. A US-qualified lawyer, she has practiced international banking and regulatory law in New York. Kate has spoken and written extensively on corporate governance and business ethics.

**Dr William Moyes
(Executive Chairman)**

William was appointed for a period of four years from 5 January 2004. He is also Monitor's Accounting Officer.

William was previously Director-General of the British Retail Consortium from 2000 to 2003 and Head of the Infrastructure Investments Department at the Bank of Scotland. He joined the British Linen Bank (a wholly-owned subsidiary of the Bank of Scotland) in 1994. Before that, he held a variety of posts in the Scottish Office, including Director of Strategy and Performance Management in the Management Executive of the NHS in Scotland. He joined the Civil Service in 1974 in the then Department of the Environment and was a member of the economic secretariat in the Cabinet Office between 1980 and 1983.

The Senior Management Team



**Stephen Hay
(Chief Operating Officer)**

Stephen is responsible for the regulatory operations of Monitor. This covers the assessment and authorisation of applicants for foundation trust status, monitoring the compliance of authorised NHS foundation trusts and managing intervention, where required.

**William Moyes
(Executive Chairman)**

Please see page 27.

**Kate Moore
(Head of Legal Services)**

Kate is responsible for ensuring that Monitor is a legally compliant organisation in all respects. This involves the provision of legal advice to the Board, senior management and all operational areas and the identification and appropriate management of all legal risks.



**Stephen Humphreys
(Director of Communications)**

Stephen is responsible for communicating with our stakeholders, including Parliament, Government, patients, the public and the media. He is also responsible for internal communications within Monitor, brand management, publications and the Monitor website.

**Janet Polson
(Head of Human Resources)**

Janet is responsible for providing a comprehensive human resources function within Monitor. This includes recruitment and selection, pay, individual performance management systems and training and development. Janet advises the Senior Management Team on compliance with employment law and adopting best HR policies and practices. She is also responsible for overseeing the provision of the back-office corporate support services.

**Adrian Masters
(Director of Strategy)**

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

Foreword to accounts

These accounts reflect the operations of the Independent Regulator of the NHS Foundation Trusts (Monitor). Monitor is responsible for authorising, monitoring and regulating NHS foundation trusts and was established under the Health and Social Care (Community Health and Standards) Act 2003 in January 2004. Monitor is accountable to Parliament and independent of government.

In accordance with the provisions of Schedule 2 of the Health and Social Care (Community Health and Standards) Act 2003, these accounts have been prepared in a form directed by the Secretary of State. These accounts cover the year ended 31 March 2006.

The Board

Dr William Moyes

Executive Chairman

Mr Christopher Mellor

Deputy Chairman

Dr Penelope Dash

Non-Executive Director

Ms Jude Goffe

Non-Executive Director

Ms Kate Nealon

Non-Executive Director

The Senior Management Team

William Moyes

Executive Chairman

Stephen Hay

Chief Operating Officer

Adrian Masters

Director of Strategy

Stephen Humphreys

Director of Communications

Kate Moore

Head of Legal Services

Janet Polson

Head of Human Resources

Employment

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

Pension liabilities

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

Health and safety

Monitor complies with all relevant legislation concerning health and safety at work. Programmes of inspections, tests, risk assessments and training are in progress and Monitor is committed to ensuring that safe working conditions are provided for employees, contract staff and visitors.

Statement of payment practices

Unless the amounts charged are considered to be incorrect, Monitor has adhered to its policy to pay suppliers in accordance with the Better Payments Practice Code for the year ended 31 March 2006. An outturn of 96% was achieved.

Register of interests

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

Audit

The auditor of Monitor is the Comptroller and Auditor General. Details of the audit fee for the year ended 31 March 2006 are disclosed in Note 4 to the Financial Statements. In addition to the statutory audit of the financial statements, the Comptroller and Auditor General will be auditing the consolidation of the accounts of NHS foundation trusts for the year ended 31 March 2006.

Accounting Officer's disclosure to the Auditors

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

Management commentary

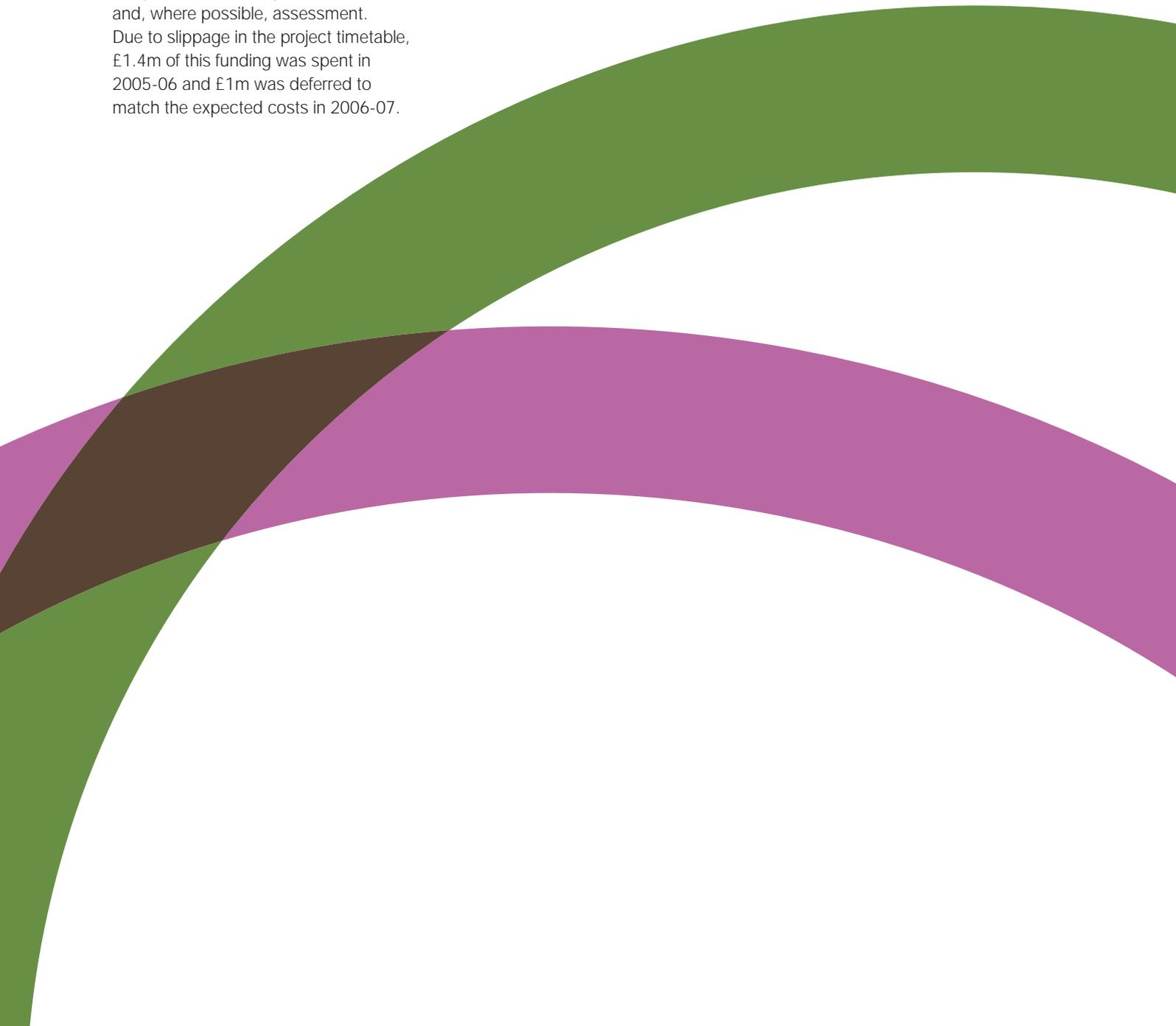
Monitor achieved a surplus of £35k during the year, with grant-in-aid of £17.7 million covering costs. Of this funding, £16.2 million was revenue and £0.8 million was capital grant used to fund the purchase of fixed assets. In addition, some government grant-in-aid was transferred to deferred income.

To prepare for the increase in the number of NHS foundation trusts, £2.4m of the funding received in 2005-06 related to the development of a new IT system. The IT system will automate much of the data manipulation and analysis for monitoring, compliance and, where possible, assessment. Due to slippage in the project timetable, £1.4m of this funding was spent in 2005-06 and £1m was deferred to match the expected costs in 2006-07.

To assist in preparing NHS trusts to reach a position to apply for NHS foundation trust status, £2.2m of funding was spent working with the Department of Health and the strategic health authorities on the Whole Health Community Diagnostic Programme. This programme identifies actions which need to be taken at the individual NHS trust level which should enhance their preparedness for NHS foundation trust status.

Pages 22-25 set out a review of Monitor's development during the year and future plans.

Dr William Moyes
Executive Chairman
21 July 2006



Remuneration report

Remuneration policy

The remuneration of Monitor employees is set by the Remuneration Committee. The committee also makes recommendations to the Secretary of State for Health on the remuneration arrangements of the Executive Chairman. Membership of this Committee comprises of the Executive Chairman, Deputy Chairman, a non-executive director, the Chief Operating Officer, Head of HR and other members as from time to time agreed by the Chairman of the Committee. Other non-executive directors may attend by invitation.

No member is involved in any decisions or discussion as to their own remuneration. In reaching its recommendations, the committee has regard for the following considerations:

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

Service contracts

Appointments are made on merit on the basis of fair and open competition. Unless otherwise stated, the senior management covered by this report hold appointments which are open ended. William Moyes was appointed on a four year contract commencing on 5 January 2004.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's Senior Management Team and non-executive directors.

Senior Management Team	2005-06 Salary £'000	2004-05 Salary £'000
William Moyes Executive Chairman	195-200	195-200
Stephen Hay Chief Operating Officer	145-150	75-80 (145-150 full year equivalent)
Adrian Masters Director of Strategy (from 12 September 2005)	65-70 (115-120 full year equivalent)	-
Katharine Moore Head of Legal Services	95-100	50-55 (90-95 full year equivalent)
Stephen Humphreys Director of Communications	75-80	60-65 (70-75 full year equivalent)
Janet Polson Head of Human Resource	75-80	35-40 (70-75 full year equivalent)

Pension benefits

	Accrued pension at age 60 as at 31/03/06 and related lump sum £000's	Real increase in pension and related lump sum at age 60 £000's	CETV at 31/03/05 £000's	CETV at 31/03/06 £000's	Real increase in CETV £000's
William Moyes Executive Chairman	45-47.5	2.5-5	626	899	91
Stephen Hay Chief Operating Officer	2.5-5	2.5-5	11	45	29
Adrian Masters Director of Strategy (from 12 September 2005)	0-2.5	0-2.5	0	12	10
Katharine Moore Head of Legal Services	2.5-5	0-2.5	9	33	18
Stephen Humphreys Director of Communications	0-2.5	0-2.5	9	29	13
Janet Polson Head of Human Resources	25-27.5	0-2.5	292	393	10

Non-executive directors

	2005-06 Remuneration £'000	2004-05 Remuneration £'000
Christopher Mellor	20-25	10-15
Jude Goffe	15-20	10-15
Kathleen Nealon	10-15	10-15
Penny Dash	10-15	10-15
None of the above received benefits-in-kind		

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, there are three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a variation of premium but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products.

The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued to their previous scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or

arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

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

Dr William Moyes
Executive Chairman
21 July 2006

Statement of Accounting Officer's responsibilities

Under the Health and Social Care (Community Health and Standards) Act 2003, the Accounting Officer is required to prepare accounts for each financial year. The Secretary of State directs that these accounts present a true and fair view of Monitor's income and expenditure and cash flows for the financial year, and to the state of affairs at the year end. In preparing the accounts, the Accounting Officer is required to:

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

The Accounting Officer for the Department of Health has appointed the Executive Chairman as the Accounting Officer for Monitor. His relevant responsibilities, as Accounting Officer, including his responsibility for the propriety and regularity of the public finances, for the keeping of proper records and the safeguarding of Monitor's assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in Government Accounting.



Statement on internal control

Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of Monitor's policies, aims and objectives. These are set out in the Health and Social Care (Community Health and Standards) Act 2003 (the Act) and Monitor's *Corporate Plan 2006-09*. In doing so, I must safeguard the public funds and assets in accordance with the responsibilities assigned to me in Government Accounting and the Accounts Direction from the Department of Health dated 25 February 2004.

The purpose of the system of internal control

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

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

The system of internal control has been in place in Monitor for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Monitor's policy on risk management clearly defines the role and responsibilities of key managers and committees within the governance structure enabling leadership to be given to Monitor's approach to risk management. This includes the role of the Board, Audit Committee and other groups including the Senior Management Team (SMT). The SMT meets regularly to identify, inform and manage key issues facing the organisation and the corresponding risks. This approach ensures that members of staff at all levels are aware of the importance of risk management and that appropriate actions are being taken to manage risk.

Risk and control framework

Corporate governance arrangements in Monitor are set out in Schedule 2 to the Act and in Standing Orders, which include a scheme of delegation and schedule of powers reserved to the Board. A key element of this is a Board that I chair that meets at least monthly to consider key operational decisions and the plans and strategic direction of Monitor. The Chief Operating Officer, Head of Legal Services, Director of Strategy and Director of Communications are standing attendees but do not have a formal decision-making role. The Head of Human Resources attends on occasions where business in that area is discussed. The Board is responsible for:

- ensuring that high standards of corporate governance are observed and encouraging high standards of propriety;
- establishing the strategic direction and priorities of Monitor within the statutory framework of the Act;
- promoting quality in Monitor's activities and services;

- monitoring performance against agreed objectives and targets;
- ensuring effective dialogue with the Department of Health and other stakeholders to best promote the continued success and growth of NHS foundation trusts; and
- ensuring that Board members personally, and Monitor corporately, observe the seven principles of public life set by the Committee on Standards in Public Life.

Following a Board risk workshop in October 2005, KPMG facilitated a time-limited project, the purpose of which was to:

- update Monitor's risk profile and develop a Monitor-specific risk assessment toolkit;
- develop a risk reporting format for Monitor's Board; and
- identify areas for further development to ensure that risk management and reporting was embedded and sustainable.

At its meeting of 23 March 2006, the Board approved the high-level risk profile and revised reporting format, which will now be piloted through the Audit Committee prior to its full introduction in the 2006-07 financial year. In addition, on risk, there has been:

- through the implementation of the *Business Plan 2005-06* and the development of the *Corporate Plan 2006-09* (which includes the business plan for 2006-07), regular reviews of the policy, framework and system being established to ensure effective identification and management of risk;
- a standing agenda item on finance and risk at Board meetings;

- a formal internal audit of our risk management arrangements;
- a programme of monthly internal control meetings; and
- timely implementation of recommendations made by Monitor's external and internal auditors.

At its meeting of 27 July 2005, the Board agreed that successful delivery of an IT and document management system capable of delivering efficiency gains in the monitoring and compliance processes was a business critical process. To facilitate this, it was agreed that a time-limited committee should be established to oversee its implementation. Monitor's IT Committee has been supported by technical expertise from KPMG and Monitor's internal auditors.

Review of effectiveness

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

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee. A plan to address weakness and ensure continuous improvement of the system is in place.

As the regulator of NHS foundation trusts, it is of paramount importance to demonstrate that risk management processes are in place and operating efficiently.

KPMG, the internal auditors, were therefore asked to continue to focus their efforts in this area and, with their assistance, Monitor has developed its internal controls to a higher level of sophistication and continues to ensure that they are embedded in all areas of Monitor's work.

The internal auditors' work on all aspects of Monitor's core work of assessment, compliance and intervention, which, at the Audit Committee's request, was deferred from the 2004-05 financial year, has provided me with the assurance I require in order to be satisfied that effective controls were in place. This is particularly important given the ongoing shift in emphasis in our work from assessment to compliance over the coming years.

During the year, Monitor's Board has maintained strategic oversight and review of internal control and developing risk management arrangements through regular reports by directors on their areas of responsibility and through specific papers for discussion at Board meetings.

The Audit Committee, which meets on a quarterly basis, has considered individual internal audit reports and management responses; progress on implementation of previous audit recommendations; the internal auditors' annual report and opinion on the adequacy of our internal control system; NAO audit reports and recommendations; and development of Monitor's approach to risk management.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am not aware of any significant internal control problems for 2005-06.

Dr William Moyes
Executive Chairman
21 July 2006

The work of the Board is also informed by the following senior committees:

Committee	Established	Frequency
Audit Committee	10 September 2004	Quarterly
Remuneration Committee	13 October 2005	Quarterly
IT Committee	27 July 2005	Monthly
Nominations Committee	17 February 2006	As required
Senior Management Team	6 January 2004	Fortnightly
Communications Steering Group	27 October 2005	Monthly

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Independent Regulator of NHS Foundation Trusts (Monitor) for the year ended 31 March 2006 under the Health and Social Care (Community Health and Standards) Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Executive Chairman and auditor

The Executive Chairman is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if Monitor has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 36–37 reflects Monitor's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Monitor's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report and the Foreword to the accounts, excluding the audited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Executive Chairman in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Monitor's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes

intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State, of the state of Monitor's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State; and

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

I have no observations to make on these financial statements.

The maintenance and integrity of Monitor's website is the responsibility of the Executive Chairman; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

John Bourn

Comptroller and Auditor General
24 July 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements and notes

Income and expenditure account

Year ended 31 March 2006

	Note	2006 £000's	2005 £000's
Income			
Government grant-in-aid	2	16,200	14,952
Miscellaneous income		0	2
Total income		16,200	14,954
Expenditure			
Staff costs	3	4,859	3,631
Other operating expenditure	4	11,020	11,179
Depreciation	5	286	140
Total expenditure		(16,165)	(14,950)
Operating surplus		35	4

All operations are continuing.

Surplus for year represents the total recognised gains and losses for the year ended 31 March 2006.

The notes on pages 43 to 52 form part of these accounts.

Balance sheet as at 31 March 2006

	Note	2006 £000's	2005 £000's
Fixed assets			
Intangible assets		429	149
Tangible assets		1,236	1,007
Total fixed assets	5	1,665	1,156
Current assets			
Debtors falling due within one year	6	313	88
Cash at bank and in hand		3,727	4,727
		4,040	4,815
Creditors			
Amounts falling due within one year	7	(3,908)	(4,751)
Net current assets		132	64
Total assets less current liabilities		1,797	1,220
Provisions	8	(85)	(60)
Total net assets		1,712	1,160
Reserves			
Income and expenditure account		47	4
Government capital grant reserve	9	1,665	1,156
Total reserves		1,712	1,160

The notes on pages 43 to 52 form part of these accounts.

Dr William Moyes
Executive Chairman
21 July 2006

Cash flow statement

Year ended 31 March 2006

	Note	2006 £000's	2005 £000's
Net cash flow from operating activities	10	(1,000)	4,726
Capital expenditure			
Payments to acquire fixed assets	5	(803)	(1,199)
Financing			
Government capital grant reserve	9	803	1,199
Net cash inflow		(1,000)	4,726
(Decrease)/increase in cash at bank and in hand		(1,000)	4,726

The notes on pages 43 to 52 form part of these accounts.

Notes to the accounts

1. Accounting policies

Accounting convention

The accounts for Monitor are prepared under the historical cost convention modified to include the revaluation of fixed assets. Without limiting the information given, the accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State with the approval of HM Treasury. The accounts comply with generally accepted accounting practice in the United Kingdom (UK GAAP) to the extent that this is meaningful in respect of Monitor's activities.

Government grant-in-aid

Government grant-in-aid which contributes to the general activities of Monitor is credited to the income and expenditure account as to match the income with the related expenditure. Any such Government grant-in-aid, received before the expenditure is charged to the income and expenditure account, is held as deferred income.

Government grant-in-aid receivable as a contribution towards capital expenditure is credited to the Government capital grant reserve and is released to the income and expenditure account to match any depreciation charge on the capital asset.

Tangible and intangible fixed assets

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

Tangible fixed assets comprise IT hardware, furniture, fixtures and office equipment and leasehold improvements which individually or grouped cost more than £5,000. Assets of the same or similar type acquired around the same time and scheduled for disposal around the same time, or assets which are purchased at the same time and are to be used together are grouped together as if they were individual assets.

Assets purchased prior to the current financial year are indexed annually using the Office for National Statistics' indices if there is a material difference between historic cost and current replacement cost. In 2005-06, Monitor decided that no material adjustment was necessary and therefore modified historic cost accounting has not been applied in the financial year 2005-06

For fixed assets funded by grants, each year an amount equal to the depreciation is transferred from the Government grant reserve to the income and expenditure account. All fixed assets have been funded by Government grant-in-aid.

Depreciation

Depreciation is provided from the month following purchase on all intangible and tangible fixed assets at rates calculated to write-off the cost or valuation of each asset evenly over its expected life as follows:

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

Cost of capital charge

The income and expenditure account includes a notional charge for the cost of the Government funded capital employed during the year. The charge is calculated at 3.5% of the average net assets for the year, excluding cash balances held at the Office of the Paymaster General which do not attract interest.

No charge has been levied for the year ended 31 March 2006 on the basis that the average capital employed was negative.

Operating leases

Operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

Pensions

Monitor participates in the Principal Civil Service Scheme.

Although the scheme is unfunded, Monitor contributes annual premiums and retains no further liability except in the case of employees who take early retirement. The pension payments for the period are charged to the income and expenditure account. Details are included in Note 12 to the Accounts.

Value Added Tax

Monitor is not registered for Value Added Tax (VAT). All expenditure reported in these financial statements therefore includes VAT incurred.

Notes to the accounts continued

	2005-06 £000's	2004-05 £000's
2. Income - Government grant-in-aid		
Total government grant-in-aid received	17,744	16,011
Government grant-in-aid transferred to Government capital grant reserve	(517)	(1,059)
Government grant-in-aid transferred to deferred income	(1,027)	0
Government grant-in-aid to income and expenditure account	16,200	14,952
3. Staff costs		
a) Staff costs comprise of the following		
Salaries and wages	2,373	1,380
Social security costs	246	144
Employer's pension costs	500	204
Total cost of staff employed	3,119	1,728
Agency, seconded, temporary and interim	1,740	1,903
Total cost of staff	4,859	3,631

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

As at 1 April 2005, there were 33 full time employees. Monitor recruited employees throughout the year such that by 31 March 2006 there were 51 full time employees, 43 of whom are members of the Principal Civil Service Pension Scheme and four of whom are members of the Partnership Civil Service Pension Scheme. Four full time employees are not in the Civil Service pension scheme. Monitor engaged staff on various agency, secondment, temporary and interim arrangements for variable time periods. As at 31 March 2006 there were 17 staff working at Monitor on this basis.

The average number of whole-time equivalent employees, including the Executive Chairman, during the year ended 31 March 2006 was 38 (22 in 2004-05). The average number of whole-time equivalent agency secondment, temporary and interim staff was 11 (15 in 2004-05).

	2005-06 £000's	2004-05 £000's
4. Other operating charges		
Property expenses	654	736
Office expenses	1,211	952
Consulting services	6,756	8,072
Other professional fees	1,149	1,085
Professional fees relating to IT project	679	0
Audit fee for Monitor	22	20
Audit fee for consolidated accounts	60	40
General expenses	489	414
Total other operating costs	11,020	11,319

The audit fee represents the cost of the audits of the financial statements carried out by the Comptroller and Auditor General.

Notes to the accounts continued

	Software licences
	£000's
5. Fixed assets	
Intangible assets	
Cost or valuation	
As at 1 April 2005	156
Transfer to intangible assets	23
Additions	365
At 31 March 2006	544
Amortisation	
As at 1 April 2005	7
Transfer to intangible assets	8
Charge for year	100
As at 31 March 2006	115
Net book value at 31 March 2005	149
Net book value at 31 March 2006	429

£23K of tangible assets were reclassified as intangible assets during the year.

	IT equipment	Furniture, fixtures and office equipment	Leasehold improve- ments	Total
	£000's	£000's	£000's	£000's
Tangible assets				
Cost or valuation				
As at 1 April 2005	182	338	626	1,146
Transfer to intangible assets	(23)	0	0	(23)
Transfer to income and expenditure account	(11)	(9)	0	(20)
Additions	408	12	18	438
At 31 March 2006	556	341	644	1,541
Depreciation				
As at 1 April 2005	49	38	52	139
Transfer to intangible assets	(8)	0	0	(8)
Transfer to income and expenditure account	(11)	(1)	0	(12)
Charge for year	56	66	64	186
As at 31 March 2006	86	103	116	305
Net book value at 31 March 2005	133	300	574	1,007
Net book value at 31 March 2006	470	238	528	1,236

£254K of IT equipment relates to an asset under construction. It has been valued as 60% of the project build calculated on a time basis.

Notes to the accounts continued

	2005-06 £000's	2004-05 £000's
6. Debtors - amounts falling due within one year		
Prepayments	313	49
Other debtors	0	39
	313	88
6a. Debtors - intra-Government balances		
Balances with Central Government bodies	0	0
Balances with NHS bodies	0	0
Balances with public corporations	0	0
Balances with bodies external to Government	313	88
	313	88
7. Creditors - amounts falling due within one year		
Trade creditors	1,347	3,305
Accruals	1,049	934
Deferred income	1,512	512
	3,908	4,751

Deferred income of £1,027K relates to funding received for the IT project which has been deferred to the financial year 2006-07 to match funding against expenditure. In 2004-05, £310K of accruals has been reclassified as deferred income.

	2005-06 £000's	2004-05 £000's
7a. Creditors - intra-Government balances		
Balances with Central Government bodies	380	1,926
Balances with NHS bodies	6	10
Balances with public corporations	0	0
Balances with bodies external to Government	3,522	2,815
	3,908	4,751
8. Provisions		
Provision brought forward	60	0
Increase in estimate	25	60
Provision carried forward	85	60

Notes to the accounts continued

	2005-06 £000's	2004-05 £000's
9. Reserves		
Government Capital Grant Reserve		
Capital grant-in-aid brought forward	1,156	97
Capital grant-in-aid transferred	803	1,199
Transferred to I&E account in respect of depreciation	(286)	(140)
Transferred to I&E account in respect of fixed asset write-offs	(8)	0
Balance at 31 March	1,665	1,156
Income and expenditure account		
Operating surplus brought forward	4	0
Transferred from government capital grant reserve in respect of fixed asset write-offs	8	0
Operating surplus for year	35	4
Operating surplus carried forward	47	4

	2005-06 £000's	2004-05 £000's
10. Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus for the period	35	4
Adjustments for non-cash items		
Increase in provision	25	60
Fixed asset adjustment in respect of write-off	8	0
Depreciation charge	286	140
Transfer from Government capital grant reserve	(286)	(140)
Adjustments for movements on working capital		
(Increase)/decrease in debtors falling due within one year	(225)	1,141
(Increase)/decrease in creditors falling due within one year	(843)	3,521
Net cash inflow from operating activities	(1,000)	4,726

11. Operating leases

Commitments under operating leases to pay rentals during the year following these accounts are given in the table below, analysed according to the period in which the lease expires.

One year	0	0
2-5 years	0	0
After more than 5 years	417	148

The 2004-05 operating lease commitment reflects approximately eight months of a rent-free period.

Notes to the accounts continued

12. Pension scheme

Monitor participates in the Principal Civil Service Pension Scheme (PCSPS). The Scheme is an unfunded, multi-employer defined benefit scheme but Monitor is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £486,943 were payable to the PCSPS (2004-05: £197,252) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%.

The contribution rates are set to meet the cost of benefits accruing during 2005-06 to be paid when a member retires, and not the benefits paid during this period to exsiting pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Employers' contributions of £10,917 (2004-05: £6,067) were paid into one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £826, 0.8 per cent of

pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £0. Contributions prepaid at that date were £2,270

13. Capital commitments

At 31 March there was a contractual commitment of £480K of which £212K was capital. This relates to the delivery of the IT project.

There were no other financial commitments at 31 March 2006 that require disclosure.

14. Related parties

Monitor is a non-departmental public body sponsored by the Department of Health which is regarded as a related party. Amounts owing from and to the Department of Health are reflected in debtors and creditors respectively. During the year no Board members, members of the senior management or other related parties have undertaken any material transactions with Monitor.

15. Financial instruments

Financial Reporting Standard 13, Derivatives and Other Financial Instruments requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces undertaking its activities. Because of the way in which Non-Departmental Public Bodies are financed, Monitor

is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which Financial Reporting Standard 13 applies. Monitor has limited powers to borrow, no powers to invest surplus funds or purchase foreign currency with grant-in-aid from the government. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing Monitor in undertaking its activities.

Monitor has no borrowings and relies on funding from the Department of Health for its own cash requirements and is therefore not exposed to liquidity risks. It also has no material deposits apart from a cash balance of £3.7m held at Paymaster General. All material assets and liabilities are denominated in sterling. Monitor is not exposed to significant interest rate risk. All assets and liabilities represent fair value.

As allowed by the Financial Reporting Standard 13, debtors and creditors that are due to mature or become due within 12 months from the balance sheet date have not been disclosed as financial instruments.

16. Contingent liabilities

There are no contingent liabilities at 31 March 2006.

17. Post balance sheet events

There are no post balance sheet events.

