evidence for
better health care

nuffieldtrust

The Nuffield Trust for Research and Policy Studies in Health Services

Report and Financial Statements

Year ended 30 September 2012

The Nuffield Trust
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Company number: 382452
Charity number: 209169

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The Nuffield Trust for Research and Policy Studies in Health Services (formerly The Nuffield Health and Social Services Fund) is a company limited by guarantee, registered in England and Wales as company number 382452. It is registered with the Charity Commission as charity number 209169.

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Registered office

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Charity number

209169

Trustees' Annual Report

The Trustees present their report and the financial statements of the charity for the year ended 30 September 2012. The Trustees have prepared the financial statements in accordance with current statutory requirements and the Statement of Recommended Practice (SORP) 2005 – Accounting and Reporting by Charities.

The objects of The Nuffield Trust for Research and Policy Studies in Health Services (the Trust) are to promote, carry out or advance any charitable objects, and in particular the prevention or relief of sickness and the advancement of the health of the people of the United Kingdom, in particular through the promotion of improvements in the quality of health care and health policy.

The Trustees have developed and adopted a statement of purpose to underpin and guide the future work of the Trust:

Our vision is to help provide the objective research and analysis that boosts the quality of health policy and practice, and ultimately improves the health and health care of people in the UK.

We aim to help provide the evidence base for better health care through four key activities:

- conducting cutting edge research and influential analysis
- informing and generating debate
- supporting clinical and managerial leaders, and the leaders of tomorrow
- examining international best practice and bringing lessons learnt back to the UK.

In everything we do we strive to be: independent; rigorous; relevant; open-minded; and to make a difference.

Board of Trustees

Trustees meet as a Board four times a year and consider all matters relating to the governance of the organisation and their responsibilities as Trustees. Once a year the Trustees, together with the Senior Management Team, meet to set the themes for the Trust's work programme for the coming year and to consider longer-term strategy. In addition there are two Board committees. The Chair's Committee meets typically twice a year and has a remit to consider matters relating to the appointment of new Trustees and Board Development; governance issues for the organisation; and the remuneration of senior executives. The Finance Committee meets four times a year and has responsibility for overseeing the financial functions of the Trust including recommending the budget to the Board and appraisal of certain projects and contracts; risk management; and monitoring of the investment management processes. New trustees follow an induction programme to gain familiarity with the Trust's work, governance procedures and ethos. The Trust maintains a Register of Interests for Trustees and Senior Management and this information is available for public consultation.

Day-to-day management of the Trust's functions is the responsibility of the Director and her senior management team, who operate within discretionary powers and protocols delegated by the Board.

The Chair of Trustees is Professor Dame Carol Black (Principal, Newnham College, Cambridge) and the Chairman of the Finance Committee is Charles Perrin (former Chief Executive, Hambros Bank).

Other Trustees who served during the year are: Tara Camm (General Counsel, Plan International) *(retired 30 April 2012)*; Dr Nicolaus Henke (Director, McKinsey & Co. and Leader of its Global Healthcare Practice); Tim Kelsey (National Director for Patients and Information, NHS Commissioning Board); Professor Sheila Leatherman, (School of Public Health, The University of North Carolina); Andrew McKeon (Managing Director Health, Audit Commission); Dr William Moyes (former Executive Chairman, Monitor) *(retired 12 December 2011)*; Peter Phillips (Chief Executive Officer, Cambridge University Press); Sir Hugh Taylor (Chairman, Guy's and St Thomas' NHS Foundation Trust) *(appointed 12 December 2011)* and Simon Stevens (President of the global health division, UnitedHealth Group) *(appointed 1 January 2012)*.

Professor Dame Carol Black, Chair of Trustees

Kevin Lowe is a non-Trustee member of Finance Committee. Mr Lowe is a Director of PricewaterhouseCoopers with extensive experience in both the charity and health sectors.

Senior Associates

As well as our permanent staff, the Trust is fortunate in being able to call on the expertise of its Senior Associates. Senior Associates are nationally-known academics, clinicians, managers and policy-makers who contribute time and input to our work programme, serve on advisory panels overseeing aspects of the Trust's work, and offer expert peer review to our publishing programme. We gratefully acknowledge their support.

Public benefit

The Trustees have considered the Charity Commission's general guidance on public benefit and have taken it into account when reviewing the Trust's aims and objectives and in planning its future activities. In particular, the Trustees consider how activities will contribute to the aims and objectives they have set. The main activities and beneficiaries are described in this report.

The Nuffield Trust works to promote improvements in the quality of health care and health policy. In so doing it seeks to improve patient care and health for all members of the public. All our charitable activities focus on health care policy and are undertaken to further our charitable purpose for the public benefit. The Trustees confirm, in light of the guidance, that the aims of the Trust fully meet the public benefit test and that the activities described in this report are undertaken in pursuit of its aims.

Overview

The Nuffield Trust is an authoritative and independent source of evidence-based research and policy analysis for improving health care in the UK. We aim to help provide the evidence base for better health care by:

- conducting cutting-edge research and influential analysis
- informing and generating debate
- supporting clinical and managerial leaders, and the leaders of tomorrow
- examining international best practice and bringing lessons learnt back to the UK.

We communicate our research and analysis via our own influential research reports and through external academic journals; through our highly respected events programme for health leaders and by speaking on external platforms; by providing comment and analysis to the mainstream media; and via social media channels and our website www.nuffieldtrust.org.uk.

The impact of our work

We believe our work makes a difference to the quality of health care and policy-making in the UK. This report is not a comprehensive list of our activities over the past year; instead it sets out to demonstrate where we believe we have had real impact in a number of key areas. All our reports are available on the website which also gives information on our projects in progress.

Cutting edge research and policy analysis

The central objective in our 2011-12 Operational Plan was to progress a range of research projects to support the NHS as it responds to the major challenges ahead. Our aim was to promote improvements in the quality of health care and policy-making in the UK, and to ensure that our evidence-based research and analysis, recommendations and tools are of genuine value to policy-makers and practitioners.

During 2011-12 our work programme focused on several themes where we have expertise, and where we are well placed to make a difference:

- health and social care reform
- finances and efficiency
- commissioning
- the provision of care
- competition and market mechanisms.

Within these overarching themes were two specific areas where we were active. These are highlighted in this report:

- Evaluation: in which we made a well-defined contribution to improving and evaluating services on the ground through linking our real time quantitative evaluation with the service

improvement efforts of others

- Predictive risk: we continued to undertake a number of work strands aimed at promoting the application and development of predictive risk models in health and social care – tools that are used to identify patients most at risk of future unplanned hospital admissions so that it can be prevented.

At the core of our work are a desire to bring the benefits of international experience to inform policy-making and practice in the UK, and a commitment to examining and supporting the future development of health care in the UK. The latter includes our programme of research and analysis on the reforms to the NHS in England that, following nearly 18 months, were finally enacted in March 2012 in the Health and Social Care Act 2012.

In focus: Health and Social Care Act 2012

The Nuffield Trust exerted considerable influence both on the development of the Health and Social Care Bill, and the surrounding discourse. We were active during the Bill's Lords' Committee stage and were regularly cited in Parliament. We worked closely with MPs and Peers of all political opinions leading up to the Bill receiving Royal Assent. Notably, many of our recommendations were accepted. Midway through the year our focus turned to supporting policy-makers and practitioners on how the reforms could best be implemented. We were engaged in responding to various aspects of the secondary legislation and guidance, especially the development of the NHS Mandate and Monitor's consultation on plans relating to licensing of providers, and competition. We were also active in debates around the authorisation of clinical commissioning groups.

This has generated requests for our experts to work with agencies charged with implementing the reforms. We advised the economic regulator Monitor on the development of policy in relation to competition and integration. We helped Monitor and the NHS Commissioning Board Authority with their work on pricing and payment reform. And we published a major report (in partnership with The King's Fund) on how the NHS could develop a strategy for the promotion of integrated care. This followed a commission from the Government that asked both our charities to examine how best to develop integrated care at 'pace and scale'.

"I want to make it quite clear that expert organisations like The King's Fund and Nuffield Trust are central to everything we're doing. We have already accepted the Future Forum's recommendation following the joint King's Fund and Nuffield Trust report that far more work is needed to integrate all public services."

Norman Lamb MP, Minister of State for Health (September 2012)

In July 2012 we launched an interactive timeline charting the history of NHS reform. The timeline has been highly rated by many commentators and is the most accessed resource on the Nuffield Trust's website, with renowned commentator Roy Lilley describing it as "excellent – a must see".

Finances and efficiency

The NHS is facing an unprecedented financial challenge, with efficiency savings of four per cent per year required up to 2015. During 2011-12, we built on work conducted in the previous year to continue to examine how the NHS can meet the financial challenge by improving productivity and delivering more health care for less money.

Our work: what we did

We strengthened our position as an expert analyst on NHS finances through working closely with expert partners, such as the Institute for Fiscal Studies and the London School of Economics, whom we commissioned to conduct new research as part of our programme: Buying Time: What is the scale of the financial challenge facing the NHS and how can it be met? The first report from the programme was written by the Institute for Fiscal Studies: *NHS and Social Care Funding: The outlook to 2021/22* (July 2012). The report mapped the longer term financial challenge facing the NHS, and examined what can be expected once the unprecedented four-year period of broadly flat real-terms NHS spending ends in 2014/15. It also assessed the likely outlook for social care spending, and considered some scenarios for spending on the NHS and social care in England in future.

We continued to publish well-received reports and other activities from our companion programme of research, The Quest for Efficiency in the English NHS. This research programme covered several key aspects of how both providers and commissioners of care could deliver greater efficiencies in the organisation and delivery of care. Key reports included:

- *Can NHS Hospitals Do More With Less?* (January 2012) – this report identified the main lessons from previous attempts to achieve greater technical efficiency within health systems, and spread the learning throughout the NHS through targeted activities, including a major conference held in partnership with the NHS Institute for Innovation and Improvement.
- *Rationing Health Care: Is it time to set out more clearly what is funded by the NHS?* (February 2012) – this report, accompanied by a debate featuring national commentators, explored the nature and extent of the current NHS 'benefits package'. It considered the advantages and disadvantages of introducing a more explicit list of NHS entitlements (and exclusions), as well as the potential role of co-payments or top-up funding in future.
- *Patient-level Costing: Can it yield efficiency savings?* (September 2012) – this report looked at whether new patient-level information and costing systems could help managers to improve 'technical' efficiency within hospitals. It highlighted the potential of new datasets to monitor costs by patient, consultant, and ward.

"[This is] the most comprehensive analysis yet published of the prospects for health funding after 2015."

***Health Service Journal* (July 2012)**

We brought an international focus to debates on efficiency in the UK by publishing an analysis of how the Canadian health system responded to its financial crisis in the 1990s. *Managing Health Reform Through an Economic Downturn* (October 2011) provided lessons for UK policy-makers and practitioners by demonstrating how decommissioning and hospital closure decisions were made

and implemented during the Canadian recession.

We were prominent in debates surrounding the future funding and delivery of social care, which continues to be a highly contentious area of public policy. We facilitated discussions with parliamentarians around the time of our report: *Reforming Social Care: Options for funding*. We support the principles of the Dilnot Commission, which include the introduction of a lifetime limit on the costs any individual would have to pay for their care and support needs. The Nuffield Trust report put forward proposals for how the existing £140 billion of state funding spent on older people (for care and welfare payments) could be rebalanced to fund more social care. Our suggestions included withdrawing some universal benefits from wealthier older people and pooling budgets and provision across NHS and social care. The report was welcomed by the Government, with Earl Howe, Parliamentary Under Secretary of State for Quality, commenting in the House of Lords:

"The Government agree with the Nuffield Trust's conclusion that the social care funding system is in need of reform."

Earl Howe, Parliamentary Under Secretary of State for Quality (July 2012)

Our work in this area stressed the critical importance of social care and how a lack of support for people in need will threaten the viability of NHS services across England (this was backed-up by emerging evidence, highlighted in Commissioning, below).

Our report helped to keep a key, unresolved debate alive and prompted further discussion of the Dilnot Commission's proposals. As well as securing widespread media coverage, the Nuffield Trust also received supportive statements from key stakeholder groups, most notably from Age UK, which said:

"The Nuffield Trust's report will be a useful asset in opening up an honest debate about how the Government and individuals need to plan for a new sustainable system of paying for social care."

Michelle Mitchell, Charity Director-General, Age UK (June 2012)

Public benefit: the impact of our work

Our partnership with the Institute for Fiscal Studies has produced new research and insights which show that the financial challenge facing the NHS is likely to extend well into the early 2020s. The research provided the most significant assessment conducted to date of the scale of the challenge beyond 2015. As a result of this work and our other activities, we are consulted by a range of influential bodies, including those agencies charged with implementing the NHS reforms from an efficiency perspective. For example, we are advising the economic regulator Monitor and the NHS Commissioning Board Authority on pricing and payment reform.

Our work on how local health services can improve their efficiency has contributed to the evidence base on improving NHS productivity levels. Our study on hospital efficiency provided a comprehensive analysis of proven factors to help increase efficiency in the acute hospital sector.

The Nuffield Trust was the first to highlight, at the time of the 2012 Budget, how £500 million in savings generated by the NHS would be channelled towards central Government deficit reduction rather than reinvested in new models of service delivery. This was covered extensively by the national and trade media.

Future work in this area

We will continue to be active in debates and discussions around the future development of the NHS and social care, particularly with regards to the quality and efficiency of services that are provided to patients. We will publish further outputs from our research programme with the Institute for Fiscal Studies Buying Time: What is the scale of the financial challenge facing the NHS and how can it be met?

We will also publish an analysis of NHS finances, in partnership with PwC and McKesson, which will be a source of expertise and data on the flow of resources around the NHS. We will also publish an analysis of financial deficits in the NHS looking back at health economies that were severely financially challenged in 2006 and track them over the subsequent five to six years to examine progress. This will provide useful intelligence on what new commissioners can learn from primary care trusts in terms of avoiding financial distress.

Finally, a critical research project that we are conducting is a major comparative study of both the efficiency and quality of health care provided by the four health systems of the UK. This project is being conducted in partnership with the Health Foundation and will report in autumn 2013.

Commissioning

Clinician-led commissioning forms one of the most radical elements of the Government's now enacted NHS reforms. One of our core aims for 2011-12 was to examine how commissioning could be strengthened to improve patient care.

Our work: what we did

We have supported new bodies such as the NHS Commissioning Board Authority and Clinical Commissioning Groups, as they adapted to their new environment. We have advised these organisations and will continue to support them in the run up to the NHS reforms going 'live' in April 2013. We have also been active within a number of national organisations engaged in commissioning throughout this review period. We were asked by the National Association of Primary Care, NHS Alliance and NHS Confederation to advise them on various aspects of commissioning reform, and our experts were invited to speak at their national conferences.

Our research and analysis on commissioning continues to draw on national and international evidence and best practice. High-profile projects included:

- The Practice of Commissioning Care For People With Long-term Conditions – this piece of research, due to be published in early 2013, has now been completed and will provide a robust and in-depth examination of the practice of commissioning of care for people with long-term conditions. Funded by a grant from the National Institute for Health Research's

(NIHR) Service Delivery and Organisation Programme, the project has generated insights that will prove useful to the new generation of clinical commissioners.

- Understanding Patterns of Health and Social Care at the End of Life (October 2012) – building on previous research published by the Nuffield Trust in December 2010, this research project used an innovative method for extracting and linking together health and social care records for more than 73,000 people who died across seven local authority areas, to provide estimated costs of the hospital and social care services provided at the end of life. This was believed to be the largest study of its kind and was profiled at a major national conference on end-of-life care attended by Norman Lamb MP, Minister of State for Health.
- Evaluation of Hospital use for People Receiving Community-based Palliative Care (Nov 2012) – this research project, funded by Marie Curie Cancer Care, evaluated the impact on hospital utilisation of the Marie Curie's home nursing care service for people at the end of life. Using innovative methods, researchers at the Nuffield Trust linked the records of nearly 40,000 people who had received Marie Curie nursing services to Hospital Episode Statistics. This report had important implications for commissioners of end of life care services in particular.
- Primary Care for the 21st Century: Learning from New Zealand's independent practitioner associations (September 2012) – we have long sought to examine international health systems to understand what lessons can be brought back to UK policy-makers and practitioners. In 2010/11 we examined the experiences of doctors' groups in the US, who had held the equivalent of a commissioning budget for the past 20 years. In this review period we extended our search for good practice and experience to New Zealand where we published analysis of what clinical commissioning groups, as representing conglomerates of practices, might learn from Independent Practitioner Associations in New Zealand. The report following this research project offered insights from the New Zealand experience of organised general practice in New Zealand at a critical time in the development of primary care in England.

"This report [Understanding Patterns of Health and Social Care at the End of Life] *vastly improves our understanding of the cost of caring for people at the end of life and encourages a debate on what role integrated, coordinated care can play in keeping people at home in their last days... . Care for people at the end of life needs to improve as a matter of urgency. The Nuffield Trust are showing us it is do-able."*

Ciarán Devane, Chief Executive, Macmillan Cancer Support (October 2012)

We continued to undertake a number of work strands aimed at promoting the application and development of predictive risk models in health and social care. Predictive risk models are a key part of the strategy of local health services for managing patients with chronic illness, and they are increasingly used to identify patients most at risk of future unplanned hospital admissions. The support we have provided to commissioners over this review period has been important in the light of the Department of Health's announcement in August 2011 that it would not fund an upgrade of two national models: the Patients at Risk of Re-hospitalisation tool (PARR++) and the Combined Predictive Model. We responded to this announcement by supporting commissioners in England and across the UK, by publishing a user-friendly guide to help them choose such tools from the open market. This was entitled *Choosing a Predictive Risk Model: A guide for commissioners in England*.

We also held a major national conference in June 2012 – our third consecutive annual conference on this topic, which continued to support commissioners by advising them to consider a range of factors when deciding whether to 'make or buy' a predictive model, including the outcome to be predicted, the accuracy of the predictions made, the cost of the model and its software, and the availability of the data on which the model is run. We followed this up with articles by our experts in the *Health Service Journal*, *British Medical Journal*, *E-Health Insider* and other sources read by commissioners and others active in this area.

Public benefit: the impact of our work

Our public benefit in this area is in part demonstrated by the fact our experts continue to be asked to advise national and local commissioning organisations, as well as representative organisations operating at a national policy level. It is also demonstrated by the considerable experience we have developed in the application of predictive risk modelling techniques. This area of our work continues to make a valuable contribution to policy-making and practice. The programme includes work on the development of case-finding tools and national evaluations of interventions to reduce hospital use. The techniques used in our analysis *Understanding Patterns of Health and Social Care at the End of Life* (October 2012) further developed innovative methodologies we had previously pioneered. The latest study is the largest of its kind and provided further evidence of how social care can reduce demand for hospital services for people at the end of their lives.

As a result of our work aimed at promoting the application and development of predictive risk models in health and social care, we are now increasingly recognised as a leading independent centre for the development of predictive risk tools. And we continued to work at the frontiers of this technology by developing a tool – the PARR-30 model – that predicts readmission to hospital within 30 days of treatment. The model is in the early stages of development and we are encouraged by the reasonable accuracy of its 'positive predictive value' for the highest-risk patients but 'low sensitivity'. Our findings were published in *BMJ Open* in July 2012.

"Your guide to predictive risk assessment [is] an excellent document."

Professor Matthew Cooke, National Clinical Director for Urgent and Emergency Care (November 2011)

Finally, the work we have led on to develop a more accurate formula to help allocate NHS funds to general practices in England for commissioning hospital care, based on the health needs of individuals in each practice, has had notable public benefit. This project, funded by the Department of Health, has influenced the way in which budgets for commissioning care are estimated and allocated to general practices. The new model, developed by the Nuffield Trust and partner organisations, called Person-based Resource Allocation (PBRA), uses existing routine datasets and innovative data linkage. It has advanced previous methods, in particular by including much more information on each unique individual registered with a general practice. Previous formulae have not been accurate enough to apply to small populations covered by a practice. The new PBRA formula will permit 'harder' budgets to be allocated to practices, and eventually the new clinical commissioning groups, to purchase a greater range of hospital services. A paper outlining the

research was published in the *British Medical Journal* in November 2011. The formula has now been adopted by the Department of Health.

Future work in this area

We will extend our research and analysis in this area next year by conducting several major research projects, including: work to inform the development of the NHS Commissioning Board, and a joint programme of research on clinical commissioning groups with The King's Fund that will explore whether and how they can develop primary care services and the impact they have on the commissioning of secondary and community care. We will also publish a report, commissioned by the National Association of Primary Care, which is examining the challenges of driving improvement (particularly in population health) at the level of a general practice drawing on evidence from the UK and abroad.

Finally, we will also publish further work that explores new applications for predictive risk modelling. We are working with an internationally renowned expert in this field from New York University, Professor John Billings, to develop a new family of risk models to predict admissions. This work is intended to update and refine the Combined Predictive Model. We will also publish the findings of further evaluations into the impact of several high-profile interventions by commissioners to help improve wellness, and reduce demand and costs.

The provision of care

The NHS is looking at new ways of organising and delivering care to improve efficiency and enhance quality. One of our core aims in 2011-12 was to examine new forms of care, particularly in primary care, with the potential to offer benefits to patients and taxpayers.

Our work: what we did

Drawing on national and international evidence and best practice, we considered new forms of organising and delivering care services. We completed an in-depth analysis of one site in the NHS – Trafford – that has been developing an 'office medicine' approach to the local organisation of care across primary, community, health and outpatient sectors of the NHS. The report of this work: *Towards Integrated Care in Trafford*, was published in November 2011.

Over the past year we have further strengthened our quantitative evaluative work in this area. The work on the Whole System Demonstrator, a randomised trial of telehealth and telecare technologies, has been especially important for those commissioners and providers considering the potential of assistive home-based technologies to reduce the need for hospital care. This is believed to be the largest evaluation ever conducted (more than 3,000 patients were involved). The results from the evaluation were published in the *British Medical Journal* in June 2012, along with an accompanying research summary from the Nuffield Trust*: The Impact of Telehealth on Use of Hospital Care and Mortality* (June 2012).

The evaluation findings attracted strong interest among commissioners, providers and academics in particular who have been seeking definitive evidence on the effectiveness of telehealth as a way of saving lives, reducing admissions and lowering costs. Our strand of the evaluation was the first to be published – it concluded there was a positive impact on patient mortality and hospital admissions, but the study found less evidence that telehealth reduced costs. As telehealth is often cited as vital to increasing the efficiency of health care delivery, our study is a critical contribution to

the evidence base. It offered reasons for caution against being over-optimistic about what telehealth can deliver, and provided some suggestions as to how future evaluative studies might be designed.

We continued to receive requests from the UK and overseas for further research and development work on integrated care. Part of our focus has been to concentrate on its evaluation – an area where we have added expertise and insight. This year we completed evaluating the first year of efforts to develop integrated care in North West London – the findings will be published in our 2012-13 year. And we are busy examining promising new models of primary care.

Public benefit: the impact of our work

Our expert research, analysis and thought leadership on integrated care has had notable impact on policy-making. We published a report in partnership with The King's Fund at the request of the Department of Health which is being used to shape and influence policy on integrated care at 'pace and scale'.

Dr Judith Smith, in her role as expert adviser to the Mid Staffordshire NHS Foundation Trust Public Inquiry, authored and presented two expert papers at seminars held by the Inquiry, in October and November 2011. One focused on the training and regulation of NHS managers and the other on the evidence base for health commissioning. Other Nuffield Trust staff were invited to participate in four of the inquiry seminars on information, patient experience, commissioning, and hospital trust leadership.

Finally, the public benefit of our work is also demonstrated in the research we are leading to develop a range of innovative qualitative and quantitative methodologies and tools that can be used for evaluating high-profile interventions. This continues to attract interest and we have been commissioned by a number of organisations to conduct evaluations that will report in 2012-13.

Future work in this area

We will continue our work to support the development, implementation and analysis of integrated care, in order to build on our reputation as a highly respected source of expertise. This will include playing a prominent role in debates and discussions that emerge from the Mid Staffordshire NHS Foundation Trust Public Inquiry report by Robert Francis QC.

We will publish the findings from a number of evaluations of projects in the health service that are seeking to deliver more integrated care and reduce reliance on hospital care, including: an evaluation of an integrated care organisation in North West London; an assessment of the impact of a telecare initiative in North Yorkshire; further analyses from the Whole System Demonstrator randomised trial of telehealth and telecare technologies; and an evaluation of whether virtual wards (a form of multidisciplinary case management) has led to reduced use of hospital and social care in three areas of England: Croydon, Devon and Wandsworth.

Critical areas of development for the Nuffield Trust will be to assess and help develop promising new models of service provision to improve quality and efficiency. We are developing a new programme of work examining the ways in which primary care and general practice need to evolve if they are to meet service and financial challenges facing the NHS. Secondly, we will develop an effective surveillance system of monitoring quality (using and developing our innovative data linkage) and finances/productivity of the NHS over the coming years of constrained budgets. This element is a major programme of work assessing quality of care and will be conducted in partnership with The Health Foundation.

Competition and market mechanisms

The Health and Social Care Act 2012 paves the way for an extension of competition and market mechanisms in health care. One of our core aims for 2011-12 was to contribute evidence of the impact of competition and the optimal future form of competition and provider payment in the NHS.

Our work: what we did

We provided expert analysis on the competition elements of the Health and Social Care Act 2012 and our experts were asked by Monitor to advise on the development of competition policy.

Our high-level research partnership with the Institute for Fiscal Studies will gather evidence to influence the development of regulatory policy by the Department of Health and Monitor. The project aims to establish the Nuffield Trust as a source of expertise on the use of competition and market mechanisms in health care. This research programme is based on empirical research and the first reports are now complete and due to be published in late 2012.

Public benefit: the impact of our work

We have helped to build up the evidence about competition by examining whether the use of market forces improves quality and efficiency. We played a prominent role in debates around the competition aspects of the Health and Social Care Act 2012, and were defenders of appropriate levels of competition (on the basis of quality), overseen by a sector-specific economic regulator (such as Monitor). As well as advising the NHS Commissioning Board Authority and Monitor, our Chief Economist was a formal member of the Competition Commission established by the Office of Health Economics. The final report from this influential commission was published in January 2012 – among other things it concluded that, based on the best evidence available, competition at regulated prices has improved the quality of some NHS services, and it found that competition can help the integration of care.

Future work in this area

This has been the first year of cooperation with the Institute for Fiscal Studies and high-quality, new analyses have been generated. A series of publications will be launched in late 2012 and early 2013. One will address the importance of independent sector treatment centres (ISTCs) and new entrants to the Government's choice and competition programme.

Informing and generating debate

Our impact was again evident in our highly respected events programme, which attracted influential speakers and attendees from the UK and overseas. The Nuffield Trust continues to provide a forum for health leaders to debate reform, inform and influence emerging health policy, and learn from best practice. We held two major summits – one focused on the UK and the other on Europe – which brought together health leaders from across the UK, Europe, the US and Canada and Australia and New Zealand:

- Our fourth Annual Health Policy Summit, held in March 2012, came at a critical time in the NHS reform agenda. Around 140 health leaders attended the two-day event, with The Rt Hon. Andrew Lansley MP, Secretary of State for Health, providing the keynote address. Other contributors included: parliamentarians Stephen Dorrell MP, Lord Darzi and Baroness Williams; and international health experts Dr Donald M Berwick, (former President and CEO of the Institute for Healthcare Improvement, USA), and Dr Devi Shetty, (Chairman and Managing Director, Narayana Hrudayalaya, India). The Nuffield Trust UK Health Policy Summit is now a well regarded and unique fixture in the health policy calendar. Highlights can be accessed at: www.nuffieldtrust.org.uk/summit/2012
- We held our first European Summit in January 2012, with support from KPMG. Held in Brussels, the subject was the future of payment mechanisms in health care. Health leaders from 14 countries participated and a similar event is being planned in January 2013 on developments in primary care across Europe. Highlights can be accessed at: www.nuffieldtrust.org.uk/euro-summit/2012
- We also held a debate in partnership with the Royal College of Surgeons on the motion: "Could the NHS further restrict the services it provides to offer a core package of services for all patients?" Dr Clare Gerada, Royal College of General Practitioners; Professor Julian Le Grand, London School of Economics; Professor Anthony Mundy, University College London Hospitals NHS Foundation Trust; and Polly Toynbee, *The Guardian*, led the debate with the BBC's medical correspondent Branwen Jeffreys in the chair. More than 250 clinicians, policy-makers, academics and journalists attended. Highlights can be accessed at: http://www.nuffieldtrust.org.uk/talks/rationing-2012

Future work in this area

We will continue to provide a respected forum for high-level debate and thinking on health care reform for senior policy-makers, practitioners and academics. Next year, our events programme will feature: the fifth Annual Health Policy Summit and second European Summit; the International Meeting on Quality held in partnership with the Commonwealth Fund; a series of one-day conferences in our main areas of expertise, including predictive risk and NHS finances; and a series of events around reform of social care funding and quality of care.

Supporting the leaders of tomorrow

The Commonwealth Fund's Harkness Fellowships provide a unique opportunity for mid-career health services researchers and practitioners to conduct research in the US, and work with leading US health experts. By supporting the UK fellows, the Nuffield Trust provides the opportunity for mid-career health services researchers and practitioners to take part in the fellowship. This constitutes an important aspect of our programme to support emerging leaders in the UK.

Examining international best practice

During the past year our researchers have examined international health systems and translated the learning to the benefit of the UK health community. This continues a longstanding tradition of research and analysis promoted by the Nuffield Trust.

Our work: what we did

As mentioned above, many of our international reports and conferences have drawn useful lessons for the NHS in England. Our report *Reforming Payment for Health Care in Europe to Achieve Better Value* (August 2012) made an important contribution in comparing different payment systems for health care used across Europe and examined their role in improving the efficiency and quality. The report explored the reasons why, despite the strong interest in rewarding providers for high-quality care and developing payments that cover entire patient care pathways, such reforms have not yet been systematically implemented in Europe.

We brought an international focus to debates on efficiency in the UK by publishing an analysis of how the Canadian health system responded to its financial crisis in the 1990s. The report, *Managing Health Reform Through an Economic Downturn* (October 2011), offered insight on how decommissioning and hospital closure decisions were made and implemented during the Canadian recession.

We examined 20 years' of commissioning experience in New Zealand in our report: Primary *Care* for the 21st *Century*: *Learning* from New Zealand's independent practitioner associations (September 2012). This followed a report we published in 2010-11 into the American experience of doctors' groups who had held the equivalent of a commissioning budget for the past two decades. The latest report provided analysis into lessons clinical commissioning groups might learn from independent practitioner associations in New Zealand.

Our research was supported by a number of high-profile conferences and forums in which we brought together UK and international health leaders to discuss how health care systems can respond to the shared challenges ahead. More than a quarter of our events programme had an international focus with speakers from Europe, the US, Canada, New Zealand and beyond. High-profile collaborations included the International Meeting on Quality held in partnership with the Commonwealth Fund. Our international conferences and partnerships have enabled us to develop relationships with prominent international policy-makers to increase our knowledge on the direction of key reforms abroad.

Public benefit: the impact of our work

As mentioned above, many of our international reports provide lessons for the NHS in England, and the wider UK NHS. These are an invaluable source of learning for health leaders.

Future work in this area

As mentioned above, our international events programme will continue in 2013 with the International Meeting on Quality held in partnership with the Commonwealth Fund; the second European Health Summit with KPMG; and a series of one-day conferences in which international leaders will participate.

Finally, we are supporting an initiative by the international research journal Health Affairs which will explore reforms to health care services being conducted by the US, European and other major international health systems. As a partner for the special thematic issue, we will contribute to content and the ensuing debates and discussions that are set to take place when the journal is published in spring 2013.

Financial review

Policy on reserves

The Trust's funds are held as expendable endowment with generally only income spent and the capital retained although the Trust is able to spend capital if needed. The Trustees maintain funds in order to generate a sufficient yield to fund current and future charitable activities.

It is the policy of the Trustees to fulfill the charitable objectives of the Trust by achieving a balance of income and expenditure over a reasonable time horizon. They consider that this policy will enable the Trust to react swiftly and effectively to meet changing health policies. As at 30 September 2012 the expendable endowment fund amounted to £67,157,000 (2011 - £64,668,000).

Review of 2011-12

The financial statements for the year to 30 September 2012 have been presented as consolidated accounts for the two entities, The Nuffield Trust for Research and Policy Studies in Health Services and Nuffield Trading Limited.

Research contracts from the Department of Health and others have been awarded in previous financial years and during this year. Work on these contracts typically spans more than one financial year and it is therefore appropriate to account for ascertainable expenditure and incoming resources while contracts are in progress in accordance with the guidance given in SSAP 9 'Stocks and longterm contracts'. Charitable expenditure relating to these contracts recognised during the year amounted to £123,000 (2011 - £600,000).

The charity has an investment policy based on total returns and, each year, the operational expenditure budgetted is based on a percentage drawdown of the capital value of the endowment plus income from contracts. As such, charitable expenditure is expected to exceed incoming resources when reported under SORP 2005. Total charitable expenditure for the year was £3,796,000 (2011 - £4,581,000). Total incoming resources for the year were £2,685,000 (2011 - £2,982,000). In the year, total resources expended exceeded incoming resources by £1,111,000 (2011 –£1,599,000).

The costs as detailed in note 8 include the management processes to commission outsourced work, monitoring the performance of outsourced programmes, and coordination of external advice including refereeing of commissioned work.

Risk assessment

The Trustees have overall responsibility for ensuring that the organisation operates an appropriate system of controls, financial and otherwise, to provide reasonable assurance that:

- The Trust is operating efficiently and effectively
- Proper records are maintained and financial information, used either within the Trust or for publication, is reliable
- The Trust complies with relevant laws and regulations.

The Finance Committee is responsible for monitoring the effectiveness of controls and reports to the Board the results of such monitoring. In carrying out its responsibilities, the Finance Committee will consider:

- Procedures and protocols in place concerning the governance of financial and business practice, including those over the IT systems.
- The risks associated with individual pieces of work and the cumulative risk of the project portfolio.
- The importance of the investment portfolio to the long term future of the Trust.
- The responsibilities of the Trust to its stakeholders.

The systems of control operating within the Trust are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss; they include:

- A Strategic Plan and an Operational Plan.
- An annual budget and cash flow forecast.
- Regular consideration by Trustees of actual results compared with budgets, forecasts, cashflow and balance sheet information.
- Regular and frequent updates on the investment portfolio.
- Executive staff of sufficient calibre and experience to recognise and manage business risks.

The Trustees continue to review procedures and reporting systems to manage and reduce risk. The key prevailing risk is the long term loss of value of the Trust's endowment and to mitigate this Trustees retain professional investment managers who manage the portfolio within the agreed policy on investment.

The Trustees continue to monitor the risk associated with participation in the University Superannuation Scheme and currently do not intend to crystallise the cessation debt by withdrawing from the scheme.

Policy on investment

There are no restrictions on the Charity's power to invest.

The Trustees have a policy of making an annual drawdown of 4% of the capital value of the investment portfolio, averaged over three years, which is applied to fund Trust charitable activities.

During the course of 2009-10, the Trustees carried out a comprehensive review of investment policy and objectives. As a first stage in this review, Mercers was commissioned to report on the current investment arrangements. The findings of the report indicated that the Trust's income target from the investment assets was realistic and appropriate at an acceptable level of risk.

The investment assets of the Trust are managed jointly by Sarasin and Partners LLP and Ruffer LLP.

The funds managed by Sarasin and Partners LLP are invested in the pooled Alpha CIF for Endowments, a diversified multi asset exempt fund for charities. It has an ethical investment policy which includes avoiding tobacco stocks. The long-term investment objective of the Fund is to achieve a "real" total return of 4-4.5% per annum. Over shorter time periods performance is measured against a bespoke benchmark. The initial yield on the portfolio was 3.5% and this has grown to 3.7% in 2011-12.

The funds managed by Ruffer LLP are invested on an absolute return basis within a segregated portfolio. Direct investment in tobacco is not permitted. Active asset allocation is central to the investment process that employs conventional assets, incorporating equity, bond, commodity and currency positions on a long-only basis. Capital preservation lies at the heart of the approach which has the objective of achieving positive returns with low volatility.

The Trust's investment in JP Morgan Asset Management's European Property Fund is held separately from the assets managed by Sarasin and Ruffer. At 31 March 2008, the Trustees agreed to invest €4.2million in this fund; the commitment was called on 31 March 2009. In January 2011, the Trustees tendered the entire holding for redemption by the Fund's managers. As at 30 September 2012, 14.3% of the Trust's holding had been redeemed at a repurchase amount of £557,000 which represented a realised loss of £119,000. At 30 September 2012, the valuation placed on this investment by the Trustees was £1,542,000 (2011 - £2,625,000).

Income earned on the total investment portfolio was £1,970,000 for 2011-12 (2010-11 - £1,579,000). The portfolio of investments and cash on term deposit had a total value at 30 September 2011 of £63,578,000 (2011 - £60,505,000).

Subsidiary undertaking

The Trust operates a wholly owned trading subsidiary , Nuffield Trading Limited, to carry out non-charitable trading activity for the Trust. Details are included in Notes 2 and 23 to the accounts.

Wellness in the workplace

The Trust promotes employee wellness to aid good mental and physical health in the workplace and to help reduce absenteeism and workplace-related illnesses. Several initiatives are in place:

- The Chair of Trustees, Dame Carol Black takes an active interest in staff wellness by, for example, addressing staff on the importance of good health and wellbeing. Trustees receive a report at governance meetings of days lost due to staff sickness. During 2011-12, the proportion of working time lost to sickness was less than 1.4% (2011 - 0.6%), which compares favourably with the National Average of 1.8%.
- We have participated for the past three years in the Global Corporate Challenge, a competition which encouraged employees to walk, run, and cycle.
- Staff benefits include flexible working, corporate gym membership, eye care vouchers, flu vaccinations and secure onsite bicycle parking.

The Trust also supports staff who undertake 10k runs and long distance charity cycle rides.

We will continue to carry these initiatives forward to enhance the health and fitness choices for our staff.

Responsibilities of the Trustees

The Trustees are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The Trustees are also responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping adequate accounting records that show and explain the charity's transactions, disclose with reasonable accuracy at any time the financial position of the charity, and enable them to ensure that the financial statements comply with the Companies Act 2006.

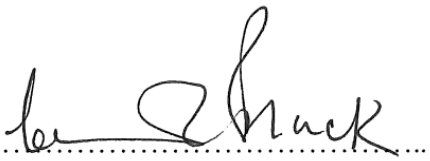
They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The current Trustees have taken all steps they ought to have to make themselves aware of any information needed by the Trust's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The trustees are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Approved by the Chair on behalf of The Nuffield Trust



Professor Dame Carol Black
Chair, The Nuffield Trust
Date: 3rd December 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NUFFIELD TRUST FOR RESEARCH AND POLICY STUDIES IN HEALTH SERVICES

We have audited the financial statements of The Nuffield Trust for Research and Policy in Health Services for the year ended 30 September 2012 which comprise the Consolidated Statement of Financial Activities, the Consolidated and Parent Charitable Company Balance Sheets and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement (set out on page 22), the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Consolidated and the parent charitable company's affairs as at 30 September 2012 and of the Consolidated incoming resources and application of resources, including its income and expenditure, for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Donald Bawtree, Senior Statutory Auditor
for and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date: 21 Dec 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

The Nuffield Trust
for Research and Policy Studies in Health Services

Consolidated Statement of Financial Activities
for the year ended 30 September 2012

	Note	Unrestricted funds 2012 £'000	Expendable endowment fund 2012 £'000	Total funds 2012 £'000	Total funds 2011 £'000
Incoming resources					
Income resources from generated funds:					
Donation	4	63	-	63	60
Investment income	5	-	1,970	1,970	1,579
Incoming resources from charitable activities	6	636	-	636	1,296
Other income		16	-	16	47
Total incoming resources		715	1,970	2,685	2,982
Resources expended					
Costs of generating funds					
Investment management costs	7	-	527	527	523
Charitable activities	8	3,130	-	3,130	3,870
Governance costs	10	139	-	139	188
Total resources expended		3,269	527	3,796	4,581
Net (outgoing)/incoming resources for the year		(2,554)	1,443	(1,111)	(1,599)
Transfers	12	2,273	(2,273)	-	-
Net (outgoing) resources for the year before other recognised gains and losses		(281)	(830)	(1,111)	(1,599)
Other recognised gains and losses					
Realised and unrealised gains/(losses) on investment assets	14	-	3,600	3,600	(1,711)
Net movement in funds		(281)	2,770	2,489	(3,310)
Balances brought forward at 1 October 2011		574	64,094	64,668	67,978
Balances carried forward at 30 September 2012		**293**	**66,864**	**67,157**	**64,668**

The statement of financial activities includes all gains and losses recognised in the year
All incoming resources and resources expended derive from continuing activities.
The notes on pages 27 to 41 form part of these financial statements.

Consolidated and Charity Balance Sheets at 30 September 2012

	Note	Consolidated 2012 £'000	Consolidated 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Fixed assets					
Tangible assets	13	2,050	2,099	2,050	2,099
Investments	14	63,578	60,505	63,578	60,505
		65,628	62,604	65,628	62,604
Current assets					
Debtors	15	473	979	488	1,013
Short term deposits	16	1,876	2,163	1,876	2,163
Cash at bank and in hand		133	106	53	51
		2,482	3,249	2,417	3,227
Creditors: amounts falling due within one year	17	(801)	(976)	(736)	(953)
Net current assets		1,680	2,273	1,680	2,274
Creditors: amounts falling due After one year	18	(152)	(209)	(152)	(209)
Net assets		67,157	64,668	67,157	64,668
Funds					
Expendable endowment fund	19	66,864	64,094	66,864	64,094
Designated fund	19	293	574	293	574
Total Funds		67,157	64,668	67,157	64,668

Approved by the Chair on behalf of the Trustees of The Nuffield Trust and authorised for issue on

3rd December 2012

Professor Dame Carol Black
Chair, The Nuffield Trust

The notes on pages 27 to 41 form part of these financial statements.

1 Accounting policies

The accounts have been prepared under the historical cost convention (except for investments, which are valued at market value; and a leasehold property, which is valued at deemed cost) and in accordance with the revised Statement of Recommended Practice Accounting and Reporting by Charities (SORP 2005), issued in March 2005, applicable Accounting Standards and the Companies Act 2006. The accounts include the results of the group's operations which are described in the Trustees' Report.

The principal accounting policies of the Trust are shown below.

Basis of consolidation

The consolidated accounts of the group incorporate the accounts of the charity and its subsidiary undertaking, all of which were prepared to 30 September 2012. The trading results of the subsidiary undertaking as shown in note 23 are consolidated on a line by line basis within the consolidated statement of financial activities (SoFA). A separate SoFA for the charity is not presented as permitted by the SORP and the Companies Act 2006. However, in accordance with paragraph 397 of SORP 2005, the results of the Trust are summarised in note 22.

Cashflow statement

The group has taken advantage of the exemption conferred by Financial Reporting Standard 1 *Cash Flow Statements (Revised 1996)* not to prepare a cash flow statement on the grounds that the group is 'small' under the Companies Act 2006.

Incoming resources

All incoming resources are recognised once the group and charity has entitlement to the resources, it is certain that the resources will be received and the monetary value of incoming resources can be measured with sufficient reliability.

Investment income

Dividends and interest are included on an accruals basis.

Dividends and interest are stated inclusive of the relevant tax claim as the Trust has activities that are not liable to income tax.

1 Accounting policies *(continued)*

Income from charitable activities

Revenue from performance related grants and contracts is recognised only when funds have been utilised to carry out the activity stipulated in the agreement. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Resources expended

These comprise costs of generating funds, charitable expenditure and governance costs.

Costs of generating funds comprises expenses relating to management of the charity's investments and all costs associated with the charity's subsidiary company.

Direct charitable expenditure comprises commissioned work and expenditure on performance related charitable contracts directly relating to the objects of the charity. Commissioned work is allocated and recognised as expenditure in full in the year of approval from the General Fund on the basis of the anticipated expenditure during the tenure of each piece of commissioned work. Liabilities are recognised as soon as there is a legal or constructive obligation committing the charity to pay out resources and including the associated costs of publication and dissemination. Expenditure on performance related contracts is recognised only when the activity stipulated in the agreement has been completed. This is generally equivalent to the sum of the relevant recognised income during the year.

Support costs include those relating to business support (including human resource and general administration expenses), executive management, finance, and information systems. The details of support costs are shown under note 8.

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees together with an apportionment of overhead and support costs.

Fixed assets

Furniture and equipment acquisitions have been capitalised and depreciation provided for at 25% on an annual straight line basis.

The leasehold premises (originally acquired by the Nuffield 1940 Trust in 1992) are depreciated over the remainder of the lease, currently 70 years. Straight line depreciation of 5% per annum is applied to capital additions. The Trustees consider whether there has been any impairment of the property on an annual basis.

Fixed assets investments

Investments are stated at market value as at the balance sheet date. The statement of financial activities includes the net gains and losses arising on revaluation and disposal throughout the year.

1 Accounting policies *(continued)*

Realised gains and losses

All gains and losses are taken to the Statement of Financial Activities as they arise. Realised gains and losses on investments are calculated as the difference between sales proceeds and opening market value (purchase date if later). Unrealised gains and losses are calculated as the difference between the market value at the year end and opening market value (or purchase date if later). Realised and unrealised gains are not separated in the Statement of Financial Activities.

Staff pensions

The Trust is a member of two final salary pension schemes – the USS (Universities Superannuation Scheme) and the NHS Pensions Scheme. In addition, the Trust operates the Nuffield Group Personal Pension Plan (NGPPP), this is a defined contribution pension scheme administered by Legal & General.

Accordingly, due to the nature of the three schemes, the accounting charge for the period under FRS17 represents the employer contributions payable.

Funds

The expendable endowment fund was created by a donation from the Nuffield 1940 Trust. The income from this fund is on the terms equivalent to the objects of the Trust and is therefore not restricted. The terms of the fund allow the income to be accumulated and the capital to be spent as the Trustees determine.

Designated funds are funds that have been set aside by the Trustees for a specific purpose, with the balance constituting the charity's expendable endowment. An analysis of designated funds is provided in note 19.

2 Subsidiary

The Trust owns the whole of the issued capital amounting to £1 (1 ordinary share of £1 each) of Nuffield Trading Limited, a company registered in England & Wales with number 6898100. Its principal activity is non-charitable trading activity not covered by the Trust's main objectives. Nuffield Trading Limited gift aids its entire profit to the Trust.

3 Basis of consolidation

The Statement of Financial Activities (SoFA) and Balance Sheet consolidate the financial statements of the charity and its subsidiary undertaking using acquisition or merger methods of accounting. The results of the subsidiary are consolidated on a line by line basis.

4 Donation

	2012 £'000	2011 £'000
Donation in kind – seconded staff (see note 10)	63	60

5 Investment income

	2012 £'000	2011 £'000
Investment income received in the year was made up as follows:		
Investment portfolio	1,935	1,563
Bank interest	35	16
	1,970	1,579

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6 Income from charitable activities

	2012 £'000	2011 £'000
Income from projects	636	1,296

7 Costs of generating funds

	2012 £'000	2011 £'000
Investment management fees charged	566	591
Rebated against portfolio valuation	(127)	(174)
Support costs (note 8)	88	106
	527	523

8 Charitable expenditure

	Commissioned work £'000	Grants awarded £'000	Direct spend £'000	Support costs* £'000	Total 2012 £'000	Total 2011 £'000
Cutting-edge research and influential policy analysis						
Finances and efficiency	3	139	39	605	786	276
Commissioning programme	50	-	47	326	423	1,064
The provision of care	59	-	7	223	289	759
Competition and market mechanisms	11	75	5	303	394	813
Informing and generating debate	-	-	127	424	551	434
Supporting the leaders of tomorrow	-	79	3	271	353	320
Examining int'l best practice	-	66	10	258	334	204
	123	359	238	2,410	3,130	3,870

* Support costs are shown in Note 10

9 Grant received

During 2010-11, the Trust received a grant of £34,560 from the Secretary of State for Health to develop information about the use of social care services by people with cancer and to produce a report which will support the work of the National Cancer Survivorship Initiative.

10 Allocation of support costs

	Governance 2012 £'000	Generating funds 2012 £'000	Charitable activities 2012 £'000	Total allocated 2012 £'000	Total 2011 £'000
Staff costs *(nature of the charge)*	85	67	1,795	1,947	1,773
Notional cost of seconded staff *(nature of the charge)*			63	63	-
Premises costs *(use of area)*	12	8	197	217	234
IT and telephone costs *(staff time)*	6	5	140	151	150
Travel and hospitality *(staff time)*	1	1	20	22	22
Professional fees *(staff time)*	1	1	14	16	58
Communications and PR *(staff time)*	3	2	54	59	236
General costs incl irrecoverable VAT *(staff time)*	6	5	127	138	147
Governance fees *(nature of the charge)*	25	-	-	25	71
	139	89	2,410	2,638	2,751

Trustees expenses included in general costs above amount to £14,430 (2011 - £11,453).
Governance fees include audit fees of £15,000 (2011 - £15,000).
Charity only £15,000 (2011 – £15,000).

Secondments and placements

The Trust has benefited throughout the year from secondments and volunteer staff. These include interns, public health traineeships and a secondee from Pricewaterhouse Coopers. We gratefully acknowledge support for 7 people.

11 Staff emoluments

	2012 £'000	2011 £'000
Salaries costs	1,474	1,355
Social Security costs	168	149
Pension costs	196	175
Other staff costs	109	93
	1,947	1,773

The average number of employees employed by the group during the year was 28 (2011 – 27), with 28 employed by the charity (2011 – 27).

Higher paid employees – Group and Charity

The numbers of employees for whom remuneration exceeded £60,000 were:

	2012 £'000	2011 £'000
£ 60,000 to £ 70,000	-	1
£ 70,000 to £ 80,000	1	-
£ 80,000 to £ 90,000	1	2
£ 90,000 to £100,000	2	3
£130,000 to £140,000	1	-
£140,000 to £150,000	1	1

Contributions were made to the Nuffield Trust Group Personal Pension Plan, which is a defined contribution scheme for 3 (2011 - 3) higher paid employees, to the NHS Pension Scheme, which is a defined benefit scheme for 3 (2011 - 3) higher paid employees and to the Universities Superannuation Scheme, which is a defined benefit scheme for 1 (2011 - 1) higher paid employee.

12 Transfer between funds

Under the terms of the expendable endowment, any shortfall in unrestricted funds can be transferred from the expendable endowment.

	2012 £'000	2011 £'000
Net outgoing resources for the year from charitable activities	(2,554)	(2,655)
Transfer to/(from) fund (see note 19)	281	(250)
Transfer from expendable endowment to unrestricted funds	(2,273)	(2,906)

13 Tangible fixed assets

Consolidated and parent charity

	Leasehold properties £'000	Furniture and equipment £'000	Total £'000
Cost or valuation			
At 1 October 2011	2,174	155	2,328
Additions	12	13	25
Disposals	-	(5)	(5)
At 30 September 2012	**2,186**	**163**	**2,348**
Depreciation			
At 1 October 2011	(133)	(97)	(230)
Provision during the year	(39)	(29)	(69)
Disposals	-	-	-
At 30 September 2012	**(172)**	**(127)**	**(299)**
Net book value			
At 30 September 2012	**2,014**	**36**	**2,050**
At 30 September 2011	2,041	58	2,099

The leasehold properties were transferred from The Nuffield 1940 Trust on 30 November 2007 at deemed cost.

14 Fixed asset investments

Consolidated and parent charity	2012 £'000	2011 £'000
Quoted investments		
Market value at 1 October 2011	59,860	51,551
Additions	5,317	16,780
Disposals	(5,259)	(6,666)
Unrealised gains/(losses)	2,392	(1,806)
Market value at 30 September 2012	62,310	59,859
Short term deposits	1,268	646
Total investments at 30 September 2012	63,578	60,505
Historical cost as at 30 September 2012	63,759	63,260

The geographical split of investments is as follows:

UK	47,768	45,148
Overseas	15,810	15,357
	63,578	60,505

The following asset represents more than 5% by value of the total portfolio as at 30 September 2012:

	£'000
Sarasin Alpha CIF for Endowments	40,356

Realised and unrealised gains and losses on investments

	2012 £'000	2011 £'000
Unrealised gains/(losses)	2,392	(1,806)
Realised gains	1,208	95
	3,600	(1,711)

15 Debtors

	Group 2012 £'000	Group 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Prepayments	40	55	40	55
Other debtors	433	924	344	902
Amounts owed by subsidiary company	-	-	104	56
	473	979	488	1,013

16 Short term deposits

	Group 2012 £'000	Group 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Coutts Bank Deposit accounts	45	-	45	-
CCLA Term Deposit	310	660	310	660
Clydesdale Term Deposit	500	500	500	500
Scottish Widows Bank	1,021	1,003	1,021	1,003
	1,876	2,163	1,876	2,163

17 Creditors: amounts falling due within one year

	Group 2012 £'000	Group 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Tax and social security	48	48	48	48
Commissioned work commitment	430	541	430	541
Accruals and other creditors	323	387	258	364
	801	976	736	953

18 Creditors: amounts falling due after one year

	Group 2012 £'000	Group 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Reserve for leasehold obligations	77	92	77	92
Funded project accrual	75	117	75	117
	152	209	152	209

19 Funds

	Group 2012 £'000	Group 2011 £'000	Charity 2012 £'000	Charity 2011 £'000
Expendable endowment				
Balance at 1 October 2011	64,094	67,655	64,094	67,655
Excess / (shortfall) of income over expenditure from financial activities	2,489	(3,310)	2,489	(3,310)
Transfer from / (to) designated funds	281	(250)	281	(250)
Balance as at 30 September 2012	66,864	64,094	66,864	64,094
Designated fund				
Balance at 1 October 2011	574	323	574	323
Transfer (to) / from expendable endowment	(281)	250	(281)	250
Balance as at 30 September 2012	293	574	293	574
Total funds				
Balance at 1 October 2011	64,668	67,978	64,668	67,978
Excess / (shortfall) of income over expenditure from financial activities	2,489	(3,310)	2,489	(3,310)
Balance as at 30 September 2012	67,157	64,668	67,157	64,668

The expendable endowment fund was originally created by a gift from Viscount Nuffield in June 1940 to The Nuffield 1940 Trust. A designated fund is held to provide for the costs of completing research projects in progress at the year end.

20 Grants awarded

	2012 £'000	2011 £'000
Finances and efficiency		
Biomed Central Journal	9	
Four countries of the UK analysis	130	
Informing and generating debate		
Health Service Research Network		15
Other		5
Competition and Market Mechanisms		
Buying Time		149
Competition in the NHS: the journey starts here		65
Strategic partnership with IFS	75	75
Supporting the leaders of tomorrow		
Harkness Fellowship	79	93
ESCR/Warwick University		17
International best practice		
John Fry Fellowship programme		4
Health Quality Conference	36	45
Health Affairs Thematic Issue	30	
Other		6
	359	474

21 Analysis of net assets between funds

Group and Charity	Tangible fixed assets £'000	Investments £'000	Other net assets £'000	Total £'000
Expendable endowment fund	2,050	63,578	1,236	66,864
Designated fund	-	-	293	293
Total funds	2,050	63,578	1,529	67,157

22 Summarised results for the Trust

Of the group surplus for the year of £2,489,000 (2011 – deficit of £3,310,000), the income and expenditure relating to the Trust is as follows:

	2012 £'000	2011 £'000
Total incoming resources	2,685	2,982
Total resources expended	3,796	4,581
Net (outgoing) /incoming resources before other gains/losses	(1,111)	(1,599)
Realised and unrealised gains on investment assets	3,600	(1,711)
Net movement in funds	2,489	(3,310)

23 Summarised results for subsidiary entity

Of the group surplus for the year of £2,489,000 (2011 – deficit of £3,310,000), the income and expenditure relating to its subsidiary entity, Nuffield Trading Limited, is as follows:

	£'000
Total incoming resources	82
Total resources expended	82
Net incoming resources before other gains/losses	-
Net movement in funds	**-**

24 Staff pensions

The Trust is a member of two final salary pension schemes – the Universities Superannuation Scheme (USS) and the NHS Pensions Scheme (NHSPS).

Contributions to the USS were made on behalf of one employee (2011 - 1).

The USS is a funded multi-employer scheme and is contracted out of the state scheme.

It is not possible, in the normal course of events, to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the USS is a multi-employer scheme where the assets are co-mingled for investment purposes, and benefits are paid from total assets. Accordingly, due to the nature of the USS, the accounting charge for the period under FRS17 represents the employer contribution payable.

The USS Trustees commission an actuarial valuation every three years. The main purpose of the valuation is to determine the financial position of the USS in order to address the level of future contributions required so that the USS can meet its pension obligations as they fall due.

The USS had its last trienniel actuarial valuation as at 31 March 2011, when the funding level of the scheme on its technical provision basis was 92%. the assets of the scheme fell short of the total amount required to meet all liabilities by £2.9 billion. (Previous valuation: March 2008, funding level 103%, surplus of assets compared with liabilities of £0.7 billion.)

The USS actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the scheme as at 31 March 2012. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. By March 2012, the funding position had deteriorated to 77%. This was due to a 24% increase in the scheme's liabilities which had not been matched by the increase in the value of the assets at 4.4%. The principal reason for the deterioration in the funding level has been identified as the historically low level of gilt yields because of the current economic climate and the Bank of England's policy of quantitative easing.

The Trust has been notified by the Trustees of the USS of the estimated employer debt were the Trust to withdraw from the USS based on the financial position of the Scheme as at 30 September 2010. As of this date the estimated employer debt was £941,000. Given the deteriorated funding level of the scheme since 2010, it is estimated that the current cessation debt is significantly more than this figure.

The Trust became a Direction Authority member of the NHS scheme from 1 February 2008. Contributions were made during the year on behalf of 5 (2011 - 5) employees. Employee contribution rates vary from 5% to 10.9% depending on the member's pensionable earnings. Employer contributions are set by the Government Actuary at 14% for all members. Various changes were made to the scheme from 1 April 2008 which affected the definitions of pensionable earnings and contribution levels. The NHS Pension Scheme is unfunded but as a statutory scheme, benefits are fully guaranteed by the Government.

The Trust established the Nuffield Group Personal Pension Plan (NGPPP) on 1 April 2009. This is a defined contribution pension scheme administered by Legal & General. Employees are required to contribute a minimum of 4% of salary and the Trust contributes 14%. 13 (2011 - 13) employees are members of the scheme.

The pension charge for the period for all three schemes was £196,000 (2011- £175,000)