Nuffield Health

Specialists in health & wellbeing

Annual Report 2017

Our purpose

To advance, promote and maintain health and healthcare of all descriptions and to prevent, relieve and cure sickness and ill health of any kind all for the public benefit.

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2017 highlights

1.4 million
people reached by our services

94%
of our hospitals have been rated 'Good' or 'Outstanding'

83
months free of MRSA bloodstream infections in hospitals

712,334
physiotherapy sessions

204,339
hospital procedures took place

>16,000
children enrolled on our swimming programme

3
hospitals rated 'Outstanding' by CQC

>334,980
members of our consumer fitness and wellbeing clubs

Connecting health and wellbeing

We are a trading charity

We are dedicated to helping people live healthy lives, get better and stay well. Our broad range of expertise covers physical, emotional and nutritional health and wellbeing. As a charity, we do not have investors or shareholders to answer to: our customers and patients come first. We generate income by charging for the services we offer. Every penny we make is reinvested into our services and facilities, and ultimately the wellbeing of individuals.

What we do

By connecting people to our experts, we help individuals achieve, maintain and recover to the level of health and fitness that they aspire to. We offer connected healthcare provision, from diagnosis and treatment through to recovery and maintenance.

Diagnose and monitor

Health assessments
A comprehensive view of a person's state of health, covering key health concerns such as diabetes, heart health, cancer risk and emotional wellbeing.

Healthy weight management
We offer tailored nutritional and exercise programmes to help individuals lose weight and keep the weight off or provide more radical surgical intervention when advised.

GP services
We have a full range of direct access GP services similar to those available at an NHS surgery, with the flexibility to fit around busy schedules.

Screening
We provide state-of-the-art imaging, scans, and wellbeing services to diagnose early and accurately.

Treat and recover

Hospital treatment
We provide patients with consultant-led, high quality clinical care for a range of conditions.

Prescriptions
Prescriptions can be dispensed in our hospitals or at other pharmacies.

Emotional wellbeing
We can help people and staff to maintain and improve their emotional wellbeing through self-guided, online and face-to-face support.

Physiotherapy
Offering physiotherapy to help heal and prevent injuries that stop people from leading active lives.

Occupational health
Working closely with employers to support their employees with quality health and wellness services.

Achieve and maintain

Fitness classes
We offer an exciting and varied class timetable in every one of our fitness and wellbeing clubs.

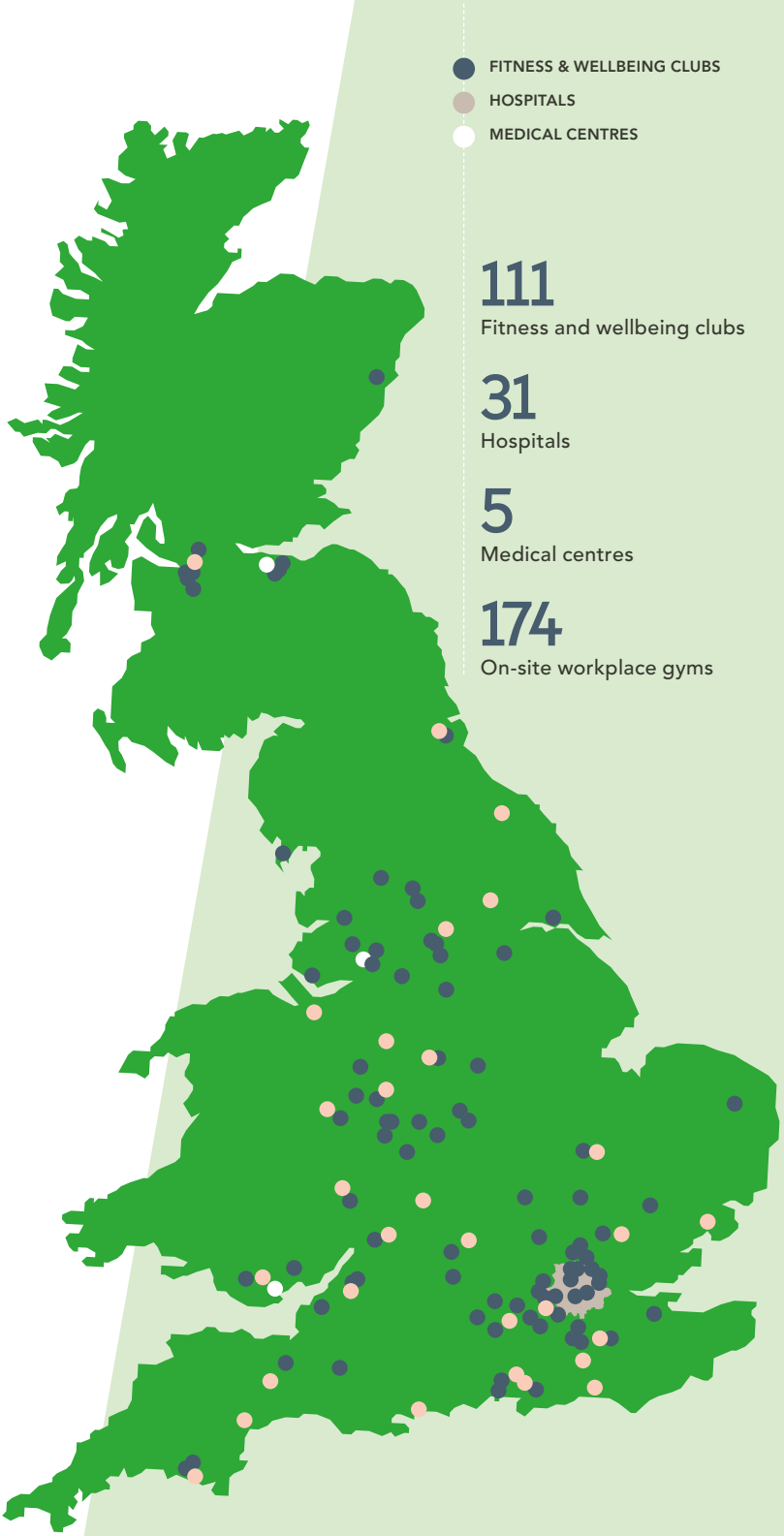
Personal trainers
Our qualified personal trainers can provide the motivation and advice to help people become fitter, healthier and reach their personal targets.

Health MOT
A one hour health check carried out by one of our health mentors or wellbeing personal trainers, designed to give a full picture of a person's fitness.

Nutritional advice
Nutritional therapists assess and identify nutritional imbalances to understand how these could contribute to symptoms and health problems.

Where we are

We run a network of hospitals, medical clinics, fitness and wellbeing clubs and diagnostic units across the UK. We also support businesses in looking after their employees by operating fitness and wellbeing facilities and services.



111
Fitness and wellbeing clubs

31
Hospitals

5
Medical centres

174
On-site workplace gyms

Our customers

The public
We provide services to people who pay us directly, including our fitness and wellbeing gym members and the people who pay for hospital and other clinical services.

Private medical insurers
Many of the people who access our clinical services and procedures, such as physiotherapy or surgery, come to us through their existing medical insurance schemes.

NHS
We work with the NHS, providing a range of services to NHS patients through local initiatives to reduce waiting lists for NHS treatment, the Patient Choice programme, and contracts for specialised services.

Employers and employees
We provide workplace health and wellbeing services to UK employers. Our customers include FTSE listed companies, universities, public bodies and their employees.

A year of focus on governance and strategy

Russell Hardy
CHAIRMAN

This year, Nuffield Health delivered on its charitable purpose by reaching more people than ever before across the UK, supporting them with high quality health and wellbeing solutions. The year also saw us make changes to maintain our position as a sector-leading organisation.

Delivering to plan

In 2017, our patients, our customers, and our organisation began to see the benefits of the five-year strategic plan that was put in place in 2016. We are particularly proud of our progress in reaching more people – an increase of 240,000 year-on-year to 1.4 million. We've been able to achieve this by expanding the range of services we provide, such as offering access to emotional wellbeing counselling and GP services in our fitness and wellbeing clubs and increasing the number of facilities.

It was also pleasing to see that despite very challenging market conditions, Nuffield Health ended 2017 with adjusted EBITDA and turnover ahead of 2016. I recognise that this year we have a significant retained deficit owing to a number of exceptional items, however I believe these will position us for future growth and profitability.

Reflecting the more challenging conditions, we also made the difficult decision to pause our planned Manchester hospital investment. Not made lightly, this important step was taken to ensure the charity remains in a strong and financially sound position, which is essential to fulfil both our charitable purpose and our responsibilities as Trustees.

Governance and oversight

It was distressing to learn of the egregious breach of trust committed by the consultant surgeon Ian Paterson, which saw much harm to patients. While this tragic situation did not involve any Nuffield Health patients, it nevertheless prompted us to review and further strengthen our procedures and governance. Being transparent when we get things wrong and encouraging a learning culture are key to us ensuring success in this area.

Dedicated to quality care

It is my firm belief that by ensuring everything we do is focused on the best outcome for the people who trust us with their health and wellbeing, we will deliver an exceptional level of quality care.

It is this singular focus that has helped 94 per cent of our hospitals to achieve a good or outstanding rating from the CQC and other national regulators. This is the best performance in the independent sector. We will not rest in pursuit of maintaining excellent standards, and as an organisation we will continue to seek new ways to ensure we remain a leader in quality care across the UK.

I would like to thank my fellow Trustees for their hard work on behalf of the charity, along with the strong leadership delivered by our CEO, Steve Gray, and the Executive Management Team. The Board of Trustees approved this Strategic Report on 30 May 2018.

Looking to the future, I am confident that Nuffield Health has the people, the plans and the processes to fulfil its charitable purpose for the advancement of the health and wellbeing of people across the United Kingdom.

Russell Hardy
CHAIRMAN

CASE STUDY

From painkillers to personal training

For two decades, Wendy's life was dominated by shoulder pain and restricted arm movement. She took multiple pills to try to cope with the pain, but found they were becoming less and less effective.

When she was advised to go to the gym for treatment, she was sceptical – after all, some days she could barely move her arm. But Wendy attended an introductory meeting with Jack, a Nuffield Health personal trainer. In this session, Jack looked at Wendy and could instantly see her shoulders were out of balance, causing her upper back and shoulders to be under a huge amount of strain.

They started a programme of rehabilitation. Slowly Wendy began exercises to strengthen and realign her shoulders and back. As her strength increased, Wendy's pain lessened and she could cut back on the tablets.

Within a few months, Wendy was exercising regularly and lifting weights, and enjoying life pain free and tablet free. She's a different person now, feeling strong and able to take part in normal activities, including playing with, and picking up, her grandson.

Remaining true to our values and our charitable purpose

Steve Gray
CHIEF EXECUTIVE OFFICER

We reached more people than ever with high quality, health and wellbeing solutions in a year where the sector experienced significant challenge.

Last year was one of both significant progress and challenge for Nuffield Health. We have seen some great successes across our strategic objectives, and have weathered the year positively against the backdrop of a very difficult market.

We ended 2017 ahead of target for our social impact activity, reaching 1.4 million people. We measure social impact as the number of people we reach through our clinical interventions with high quality, sector-leading health and wellbeing solutions that continue to improve the health of the nation.

Our cystic fibrosis (CF) exercise programme – which offers free personal training and coaching to children and young people with this limiting lung condition – goes from strength to strength. We offered more than 2,700 personal training sessions last year and will be expanding the programme through partnerships with a number of new NHS Trusts in 2018.

We also developed and had independently accredited a new online training programme for personal trainers working with CF patients, and have seen 110 trainers complete this. Our long term aim is to make this course available to any personal trainer interested in this area of exercise intervention.

As our two year pilot funding a Head of Wellbeing at a secondary school in Witney, Oxfordshire, came to an end, we ramped up the analysis of the findings. The project was set up to investigate projects and interventions that could help staff and students manage the pressures of school. We will share our analysis in 2018.

1.4 million
people reached
(21% increase)

94%
hospitals rated good
or outstanding

5.8%
increase in adjusted EBITDA

Quality

We also made tremendous progress on our aim to provide consistently high quality care. Quality for us falls into three categories: that we do no harm, that we make a positive difference to the health and wellbeing of our customers and patients and that their experience throughout is the best it can be. Our clinical leadership team are responsible for delivering a safe, effective and positive experience that underpins our quality assurance framework. They continue to embed a Nuffield Health specific version of the World Health Organization surgical checklist while also driving quality at local and national level, reducing errors and adverse events by promoting team communication.

Tees hospital staff celebrate their CQC report.

We've been upskilling our teams in our fitness and wellbeing clubs. A newly developed Nuffield Health Life Support training programme, and the installation of automatic defibrillators in all of our consumer and corporate gyms, has allowed us to provide timely intervention and save lives when someone has experienced health problems in our clubs.

In 2016 we were the first independent acute hospital to receive an 'Outstanding' review from the Care Quality Commission. In 2017, two more of our hospitals – Leeds and Tees – were rated 'Outstanding'. By the end of the year, all of our hospitals have been reviewed, and 94 per cent were rated Good or Outstanding by the independent regulators.

Not only have regulators recognised the quality of our approach, Nuffield Health was also the recipient of a number of industry awards. From Private Hospital Group of the Year, at the Health Investor Awards and the Laing Buisson Awards, through to a Nursing Times Award for our Infection Prevention and Control, each are deserved recognition of the dedication our people have to individual, attentive care.


We purchased new robotic arms to enhance joint replacement surgeries.

Importantly, this has been recognised by the people who trust us with their care, with exceptional patient satisfaction levels in our hospitals, and improving scores from across our fitness and wellbeing network.

Connected health

We have continued our pioneering work to connect health and wellbeing services to form personalised care for our members and customers.

Last year we acquired CBT Services, a small group of experts in emotional wellbeing and mental health. The addition of these experts to our clinical professionals has meant we can now place as much importance on mental wellbeing as we do on physical health. Throughout 2017, our focus has been on integrating the services into our organisation, and offering them to our customers, starting with our workplace wellbeing customers. The response has been very positive.

Technology is also vital to our aim to connect patient journeys, so I was pleased that we passed the milestone to go live with our first pilot of our electronic health record project at our Bristol hospital.

Financial performance

The year also presented us with significant challenge, as market conditions were tough. Despite this, we closed out 2017 with adjusted EBITDA up 5.8 per cent on last year to £94.2 million. Turnover was also up, by 8.3 per cent.

Opening our new contact and employee centre in Dorking, Surrey.

This increase was driven by a record level of members at our fitness and wellbeing clubs and an increase in the number of people that pay for their own treatments at our hospitals. This contrasted with declines in the value of work we received via the NHS and private medical insurance. In our workplace wellbeing activity, we remain healthy, but increasingly our corporate customers are experiencing cost pressures and seeking to make savings.

As a trading charity, we do not seek out donations or do fundraising so we must be particularly aware of changes in the market and take steps to address these. We began the year with some significant and essential investment in our physical estate and our digital infrastructure, to ensure Nuffield Health stays competitive and positioned to grow in 2018.

To help deliver a high quality patient experience to our patients and customers, we prioritised investing in our facilities. In 2017, we put £89m into a wide variety of capital projects, including refurbishing our hospitals, operating theatres and wellbeing centres, new clinical and fitness equipment, and on infrastructure systems. This included major projects to upgrade to state-of-the-art theatres at our hospitals in Taunton, Chester and Exeter.

We also installed our brand new NuCycle studio updates at 10 of our fitness and wellbeing clubs and refurbished a number of our consumer and corporate sites.

However, as 2017 progressed, it became clear the independent hospitals sector was experiencing a period of intense pressure and significant change. This caused us to make some difficult decisions around our spend, so that we could ensure the long term financial sustainability of the charity. One of those decisions involved our hospital expansion plans in Manchester, which we put on hold. We remain committed to Manchester, as our investment in the Diagnostic Centre, our two fitness and wellbeing clubs and our corporate wellbeing business demonstrates.

At the same time, we have been reviewing our commitments. We have changed the way we calculate onerous leases and impairments and the costs we expect to incur in subsequent years. As a result, we have identified exceptional charges on these which have contributed to a deficit of £23.8 million this year (£2.6 million surplus in 2016).

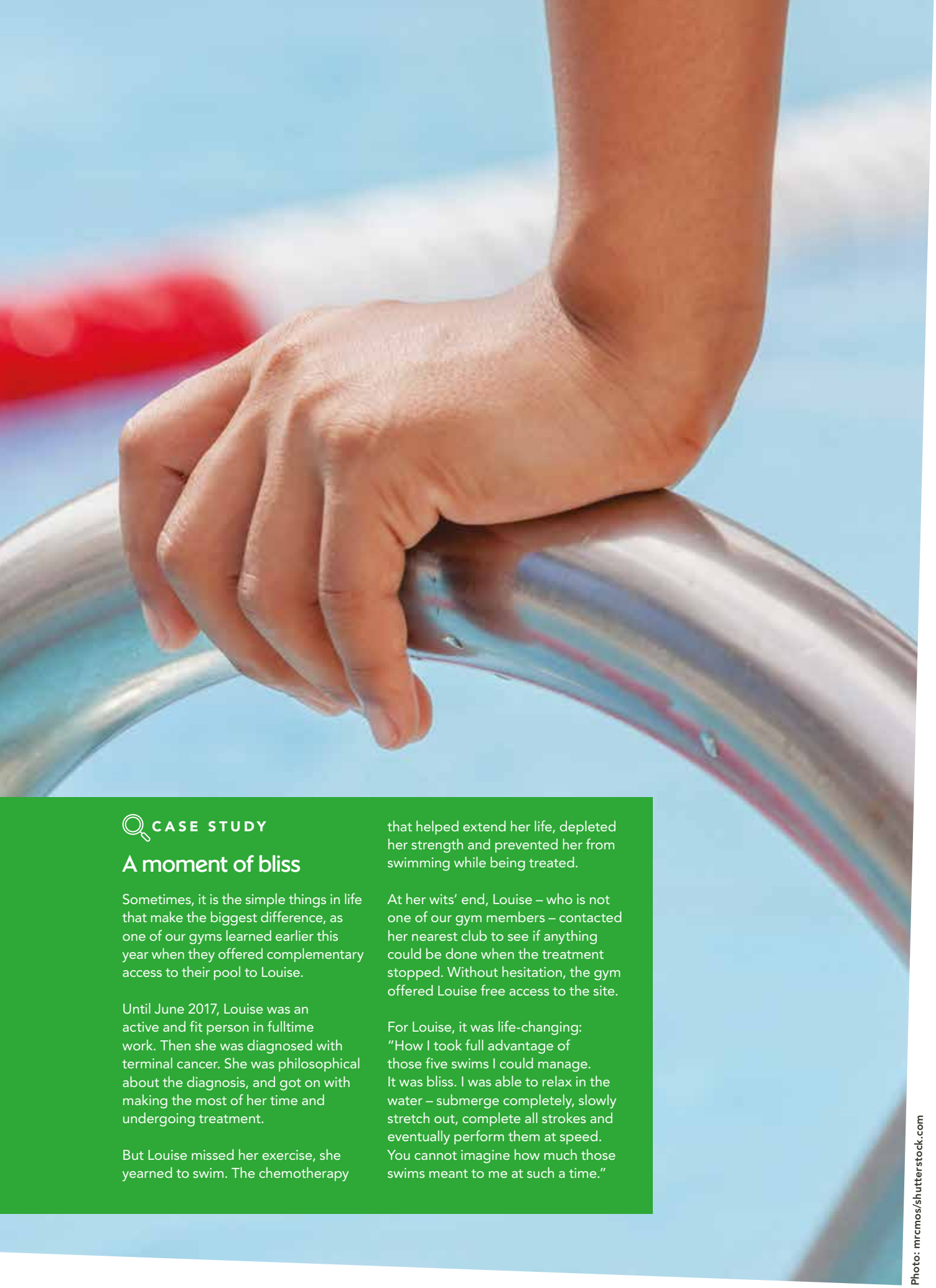
We also made some changes to the overall structure of the organisation. At the beginning of the year, we changed our operating structure to create better connections between the hospitals, clinical services and fitness and wellbeing clubs regionally. We then brought together Nuffield Health's Customer Contact Centre and Employee Support Centre, into a central contact centre in Dorking, to ensure we could provide excellent service to customers and staff. We made further changes at head office, with the removal of some roles, to simplify our structures and reduce our costs.

"We put £89m into a wide variety of capital projects, including refurbishing our hospitals."

As we enter 2018, we have a number of new faces on the Executive Management team that bring different experiences and skills. These will be of value as the state of the economy and ongoing political uncertainty will remain a challenge. I remain confident in our resilience, our strategy and our plans.

Finally, I would like to express my thanks to our governors, people, partners and customers. Our success this year would not have been possible without their support and commitment. I look forward to working together next year as we move towards becoming the UK's most trusted healthcare partner and provider.

Steve Gray
CHIEF EXECUTIVE OFFICER



CASE STUDY

A moment of bliss

Sometimes, it is the simple things in life that make the biggest difference, as one of our gyms learned earlier this year when they offered complementary access to their pool to Louise.

Until June 2017, Louise was an active and fit person in fulltime work. Then she was diagnosed with terminal cancer. She was philosophical about the diagnosis, and got on with making the most of her time and undergoing treatment.

But Louise missed her exercise, she yearned to swim. The chemotherapy that helped extend her life, depleted her strength and prevented her from swimming while being treated.

At her wits' end, Louise – who is not one of our gym members – contacted her nearest club to see if anything could be done when the treatment stopped. Without hesitation, the gym offered Louise free access to the site.

For Louise, it was life-changing: "How I took full advantage of those five swims I could manage. It was bliss. I was able to relax in the water – submerge completely, slowly stretch out, complete all strokes and eventually perform them at speed. You cannot imagine how much those swims meant to me at such a time."

Photo: mrcmos/shutterstock.com

Healthcare in 2017

Our purpose as a charity is to improve the health and wellbeing of the nation. With an ageing population, increasingly unhealthy lifestyles and stressful lives, we see an opportunity to promote a more connected approach.

The health and wellbeing needs of the UK population are changing. The UK population is less active than ever before. In fact, according to research released in 2017, nearly one in 10 adults has not walked continuously for five minutes in the space of a month. This inactivity is costing the NHS £8.5bn annually, through diseases such as coronary heart disease, stroke and immobility.

As a nation, we are living longer, but we are not spending those extra years in good health (see Figure 1). We are more likely to suffer from multiple conditions that require costly medical intervention.

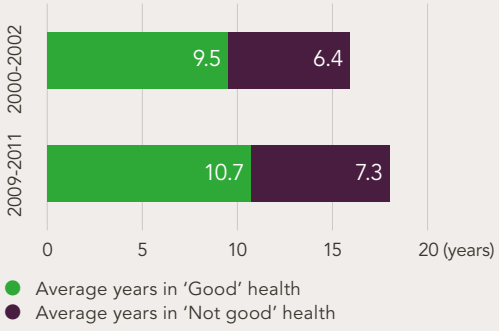
Older people make up a growing proportion of the population. This will place challenges on the NHS model which relies on taxation to fund service provision. A nation with an older population will place a greater demand on public services. But it will also have fewer workers contributing through taxation.

NHS under pressure

While sedentary lifestyles and an ageing population are both increasing demand for healthcare, the NHS is under strain. It is treating more patients than ever before, with activity increasing across the board. But key performance targets for hospital services are now being missed throughout the year. Patients are having to wait significantly longer to access the clinical care they need through the NHS (see Figure 2).

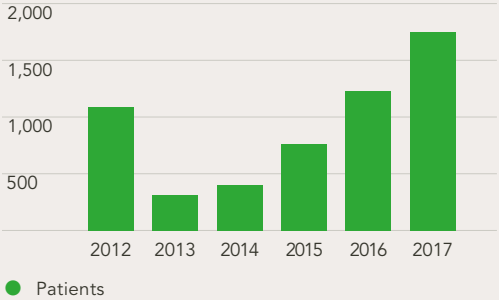
Figure 1
Increases in healthy life expectancy lag behind life expectancy

As life expectancy is increasing, we are likely to spend more years in ill health, placing increased demand on care services.

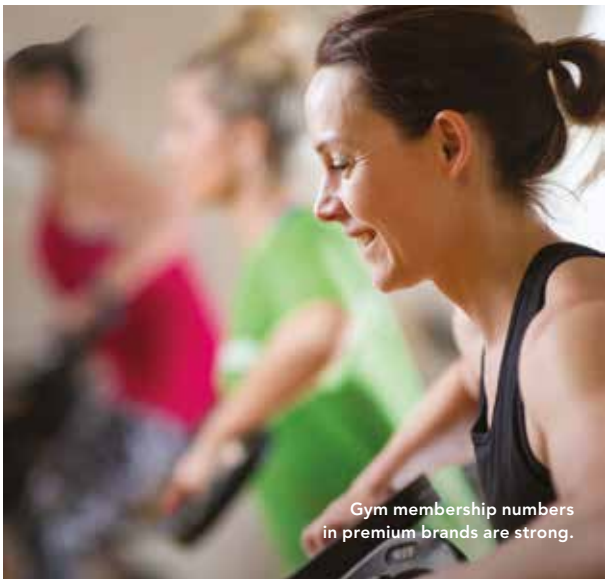


Ref: Future of an Ageing Population, Government Office for Science, 2016. Figures relate to 65-year old men.

Figure 2
NHS patients waiting more than 52 weeks from referral to treatment, England



Ref: Performance of the NHS Provider Sector year ended 31 March 2017, NHS Improvement, 2017



Gym membership numbers in premium brands are strong.

The independent sector plays a role in relieving NHS pressure.

10%
forecast growth in self-pay market

£8.5bn
annual cost of inactivity to the NHS

By offering alternative routes to receiving treatment, such as self-pay or health insurance, the independent acute hospital sector plays an important part in relieving pressure on the NHS as well as reducing waiting times for treatment – benefiting both the individual patient and others who need care.

With increasing NHS waiting lists and the rationing of procedures, the self-pay market is forecast to continue to grow by about 10 per cent each year.

Shifting responsibility

The current government has been indicating that it expects employers to provide more support for their workforce. Increasingly though, the solutions are evolving from traditional private medical insurance and new approaches. In the US, Amazon, Berkshire Hathaway and JPMorgan Chase announced a new trust-based venture designed to provide better, cheaper health care for their employees.

We anticipate growth in corporate healthcare, with more and more employers considering new ways of providing insurance themselves through their own trusts.

The number of people joining gyms remains strong – people are taking an active role in their wellbeing. In 2017, the mid-range gyms continued to struggle, while the premium brands and budget gyms show growth, albeit with the former focused on streamlining and consolidating what they offer members. From a premium perspective, customers expect state-of-the-art, high tech equipment and are willing to change clubs for it.

Data is transforming health

The past decade has seen a revolution in data. Innovation in healthcare has not moved as rapidly, but change is coming. The internet has enabled video consultations, artificial intelligence is now being partnered with hospital consultants to aid diagnoses, and big data is transforming our understanding of diseases and interventions.

At an individual level, technology savvy customers are using smartphone applications and wearables to monitor their own health and, as a result, are finding themselves more and more engaged with their own health journey. This represents an opportunity for us to integrate our care and fitness provision and equipment into a seamless offering for prevention as well as diagnosis and treatment.

The economic climate is uncertain

Declining consumer and business confidence, an unstable macro-economic environment, and geopolitical instability are impacting organisations and individuals across the UK.

The overarching climate of uncertainty has affected confidence. With the approach of the Brexit deadline in 2019, companies are increasingly looking to cut or save costs. Pressure is growing on the costs of ancillary benefits such as employee health and wellbeing schemes and on-site gyms.

The shadow of Brexit also hangs over all healthcare organisations, which often rely heavily on professionals from within the European Union for their workforce. While we are not as exposed as some NHS trusts, the pressures still cause us concern.

Changing taxation and regulatory requirements, such as the General Data Protection Regulation, the Apprenticeship Levy and business rates have the potential to place new burdens on us as an organisation.

Conclusion

The UK market remains challenging, but also offers opportunities. Nuffield Health has responded well to changes in the external environment, albeit with a reduction in spend and a reset of our cost base. We believe we are well set to weather the challenges in the coming year.

Creating long-term value

Strategic vision

Our vision is to help individuals to achieve, maintain and recover to the level of health and wellbeing that they aspire to, by being a trusted provider and partner.

Our resources

- Our experts
- Our people
- Our partners
- Our digital services and technology
- Our financial resources
- Our brand

Strategic objectives

Social impact

To provide activities that contribute to and increase public benefit

Quality

To deliver consistent high quality care for our customers and patients

People

To link our people's passion with their performance to deliver great outcomes for our customers and patients

The value we create

Healthier people
Our organisation is based on helping people in the UK get healthier – both physically and emotionally. By supporting people to take control of their health and wellbeing, we help create fitter and healthier individuals. Our interventions ultimately enable people to be more productive and maintain their health.

Expanding knowledge
Through our unique flagship activities, we are investing in growing understanding about health and wellbeing interventions. We seek to share our learnings to contribute to the global knowledge base and make available our bespoke training programmes for others to use.

Contributing to society
We employ more than 16,000 people in the UK, contributing to the UK economy by providing jobs and development opportunities. We also generate income and pay taxes, and take part in a range of initiatives to benefit local communities.

KPIs

People helped
We measure our impact on people by the number of clinical interventions we have provided. This gives an overview of how many people we are reaching.

1.4m
People reached

Customer satisfaction
We are tracking customer satisfaction rates as a measure of the loyalty to our brand and trust in our services.

77%
Gyms

96%
Hospitals

Investment and EBITDA
Our investment figure is a measure of our ability to grow and achieve our charitable purpose, and our EBITDA underpins this ability.

£89m
Investment in capital projects

Our people
We provide employment and development opportunities for our people, including providing specialist qualifications and apprenticeship opportunities.

16,198
Number of employees

Research investment
We have invested in a broad range of research initiatives, partnering with NHS trusts, universities and other charities with the aim of enhancing care and growing knowledge.

£264k
Invested in research and outcomes

Brand loyalty

To build loyalty in our brand among customers, patients and providers

Connected health

To provide best in class connected health and wellbeing services for the benefit of customers and patients

Financial sustainability

To enable investment in support of our charitable purpose

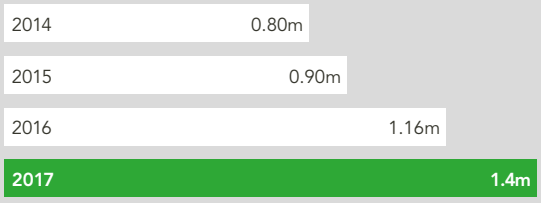
Social impact

More than 60 years ago, Nuffield Health started as a charity with a small nursing home in the south east, providing health and healthcare for the public benefit. To this day, this is still our purpose.

£264k
Invested in research to enhance health and wellbeing

92k
Health MOTs provided

Social impact 2014-2017
Clinical interactions (millions)*



We calculate our social impact through the number of interactions we have had with individuals throughout our hospitals, clinical services, corporate wellbeing and consumer fitness and wellbeing centres. We anticipate this figure is larger through the number of people we impact indirectly via our free online clinical information, but we are not able to track this accurately at this point.

Our activities aim to improve health and wellbeing – from prevention to cure. To have the greatest social impact, we seek to reach the greatest number of people possible – through our hospitals, our fitness and wellbeing clubs, our workplace wellbeing programmes and our clinical experts.

We measure our health and wellbeing impact through the clinical interventions we make with individuals. In 2017, we reached 1.4 million people, up by 240,000 from 2016. In the longer term, we are seeking to increase this figure year-on-year with a target of two million by 2020. As a trading charity, our income comes from charging for our services. We re-invest all of this in running and developing our health and wellbeing services and pioneering new models of care and delivery so that more people can benefit – fulfilling the promise of our charitable purpose.

Because we are a charity, our purpose guides how we operate. We provide a range of services that enhance wellbeing but are not charged for. Our health MOTs (HMOTs), which are one hour-long individual consultations looking at key health indicators, are available free to our gym members and offered more widely to others through free community interventions. We provided more than 92,000 HMOTs last year and complementary swimming lessons to children who are enrolled at our Nuffy Bear Nurseries.

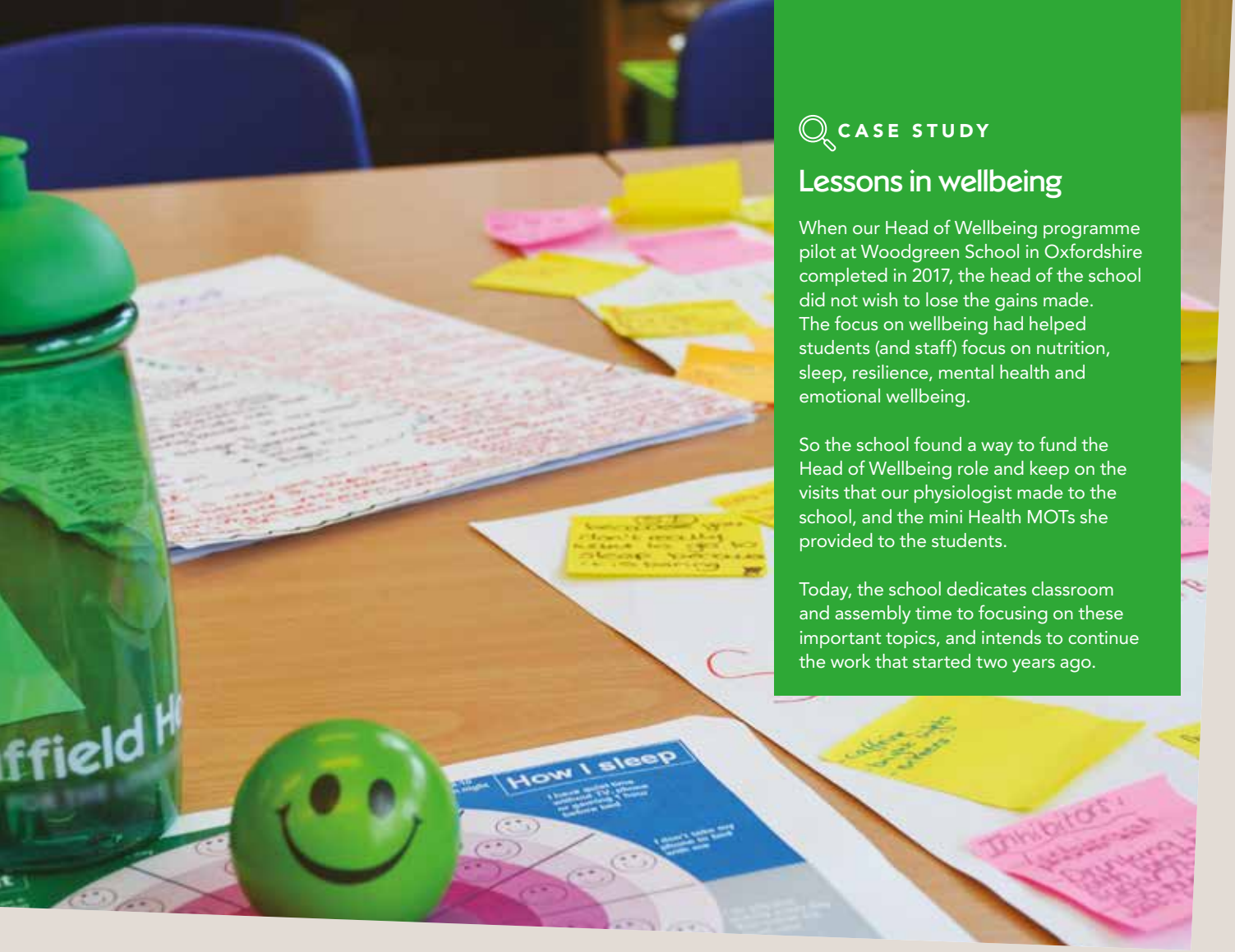
We also consider part of our role to grow understanding and knowledge around the connection between fitness, wellbeing and health. This includes research and making resources accessible online, such as self-assessment and management tools, basic lifestyle programmes and wellbeing resources for practitioners.

Flagship programmes

Through our flagship programmes, our goal is to widen access by working in partnership with the NHS, other healthcare providers, charities and communities.

One of our key flagship programmes began in 2011, when we started a partnership with Great Ormond Street Hospital in London to provide free personal exercise training and access to our facilities for children and teenagers with the lung condition cystic fibrosis (CF).

The programme has since expanded. We are now working with five other NHS trusts across the country, and are in advanced discussions with another two. Last year we had 155 patients enrolled and provided more than 2,700 personal training sessions.



CASE STUDY

Lessons in wellbeing

When our Head of Wellbeing programme pilot at Woodgreen School in Oxfordshire completed in 2017, the head of the school did not wish to lose the gains made. The focus on wellbeing had helped students (and staff) focus on nutrition, sleep, resilience, mental health and emotional wellbeing.

So the school found a way to fund the Head of Wellbeing role and keep on the visits that our physiologist made to the school, and the mini Health MOTs she provided to the students.

Today, the school dedicates classroom and assembly time to focusing on these important topics, and intends to continue the work that started two years ago.

During 2017, we launched our first online CF training modules for personal trainers. Developed by our internal teams in partnership with Great Ormond Street Hospital and University College London, the modules cover training techniques, identifying areas of risk for people with the condition and infection prevention and control. More than 110 personal trainers have undergone specialist training since the programme began.

Great Ormond Street Hospital estimated that personalised exercise intervention saved around £7,000 per patient per year, when combined with standard physio care and dietetic advice.

School wellbeing programme

Our two year pilot supporting a secondary school came to an end last year, and we began to evaluate the data. The project, which involved funding a head of wellbeing at Woodgreen School in Witney, Oxfordshire, was designed to investigate what projects and interventions could help students and staff cope with the pressures of school. We will be sharing our findings through recognised research channels, including publications.

From 2018, our hospitals and fitness and wellbeing clubs will be working with local schools to offer education and activities at our sites or on-site at the school itself, helping to increase accessibility to our expertise and services.

Measuring our impact

Through sharing our research on our interventions, we help to advance health and wellbeing knowledge. In 2017, in addition to the work we have done evaluating our head of wellbeing programme with schools, we have been supporting a range of other projects.

We have three studies at various stages that are looking at the role of exercise in helping those going through cancer treatments. Two of these studies are studying work with breast cancer patients and the other is a proposed study of men with prostate cancer, which is in the final stages of approval.

We have also been investing in understanding wellbeing, including funding post-doctoral research fellowships looking at behavioural science and developing a partnership with Manchester Metropolitan University to establish a Centre of Excellence for Health and Wellbeing.

Ultimately, we believe this research will help us measure the impact our interventions have and highlight which ones have the greatest public benefit.

Quality services and outcomes

In keeping with our aim to be the UK's most trusted health and wellbeing provider, we strive to deliver the highest quality care and safety for our patients and customers.

We set out an agenda for enhancing and maintaining quality in 2016 when we created and launched our Quality Assurance Framework. The framework is designed to support the planning, delivery, monitoring and continuous improvement of all the care we provide.

It covers three equally important factors, as originally designed for quality improvements within the NHS. The three factors are:

- **Safety** – meeting the highest possible standards of safety by avoiding harm, upholding professional standards and acting responsibly.
- **Effectiveness** – providing evidence-based health and wellbeing expertise and services that lead to excellent outcomes.
- **Experience** – being a trusted partner to our patients and customers by giving them a positive, reassuring and personalised experience.

We review our quality work in the light of these three areas, and measure our success at individual hospital or site level through local governance reporting, at expert advisory group level, for example through the monitoring and reporting of trends and incidents and implementation of best practice guidance. And at an overarching level, through robust reporting at the Quality Committee and reporting to the Board Quality and Safety Committee.

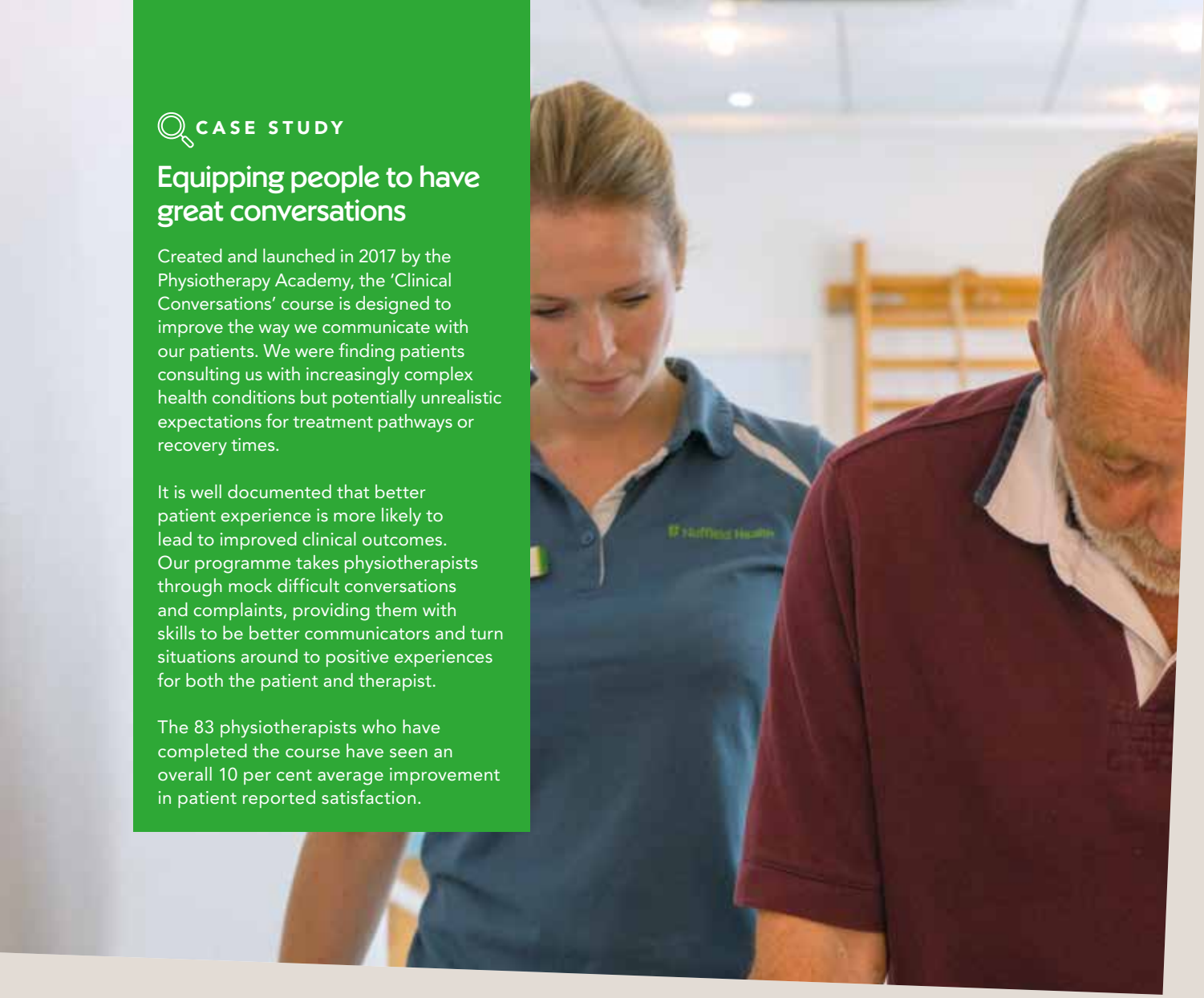
Nuffield Health's Quality Assurance Framework
Each month we report on the Safety, Effectiveness and Experience aspects of quality across our organisation to our operational Boards. A detailed review is presented to the Quality Committee and the Board Quality and Safety Committee each quarter. These reports help us track successes and areas for further improvement, with results shared across the organisation.

Overall quality

As a large independent healthcare provider, the quality and safety of care we provide is monitored by a number of external groups. In England, the Care Quality Commission (CQC) is responsible for regulating our hospitals and registered medical clinics through monitoring and inspections. Hospitals and clinics in Scotland and Wales are assessed by Health Improvement Scotland and Health Inspectorate Wales respectively. All our hospitals are subject to the same level of scrutiny and review as NHS facilities.

The CQC review process has been rigorous and not always easy. In our experience, it has taken time to build understanding within the regulators about how the sector operates and the governance structures within it, as these differ from NHS hospitals.

We approached these reviews with a spirit of constructive collaboration, keen to gather an objective view of the quality and safety of our services and support the highest standards of patient care.



CASE STUDY

Equipping people to have great conversations

Created and launched in 2017 by the Physiotherapy Academy, the 'Clinical Conversations' course is designed to improve the way we communicate with our patients. We were finding patients consulting us with increasingly complex health conditions but potentially unrealistic expectations for treatment pathways or recovery times.

It is well documented that better patient experience is more likely to lead to improved clinical outcomes. Our programme takes physiotherapists through mock difficult conversations and complaints, providing them with skills to be better communicators and turn situations around to positive experiences for both the patient and therapist.

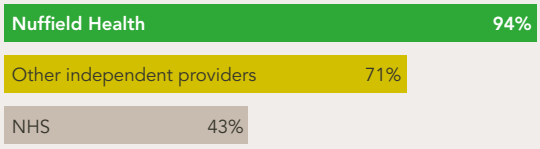
The 83 physiotherapists who have completed the course have seen an overall 10 per cent average improvement in patient reported satisfaction.

The regulators had completed their review of all our hospitals by the middle of 2017. Two hospitals – Leeds and Tees – were awarded the highest possible CQC rating of 'Outstanding'. They joined our Cambridge hospital, which in 2016 became the first independent hospital to receive overall 'Outstanding' in a CQC review.

Overall, 94 per cent of our hospitals have been assessed as 'Good' or 'Outstanding' (see page 92 for more). Disappointingly, in 2015 and 2016 two hospitals were found by the CQC inspection team to require improvements. We responded by making immediate improvements in the areas they identified. Our internal monitoring provides us with confidence that the improvements have been effective and sustained. We have notified CQC of the improvements and are waiting for a re-inspection. We are confident that we have been able to enhance and improve the safety and quality of care across all our hospitals.

Later in 2017, the CQC commenced their inspection programme of our medical and wellbeing clinics, where we offer many primary care services, health screening and diagnostics services. The inspection of these services will continue throughout 2018 and are anticipated to conclude by March 2019. The CQC has determined that these services will not be using a rating system at this time.

Care Quality Commission hospital ratings
Good/Outstanding



Ref: NHS Partners Network report: "Independent sector providers caring for NHS patients", September 2017

83
months free of MRSA infections

10%
improvement in patient satisfaction following communication training

CASE STUDY

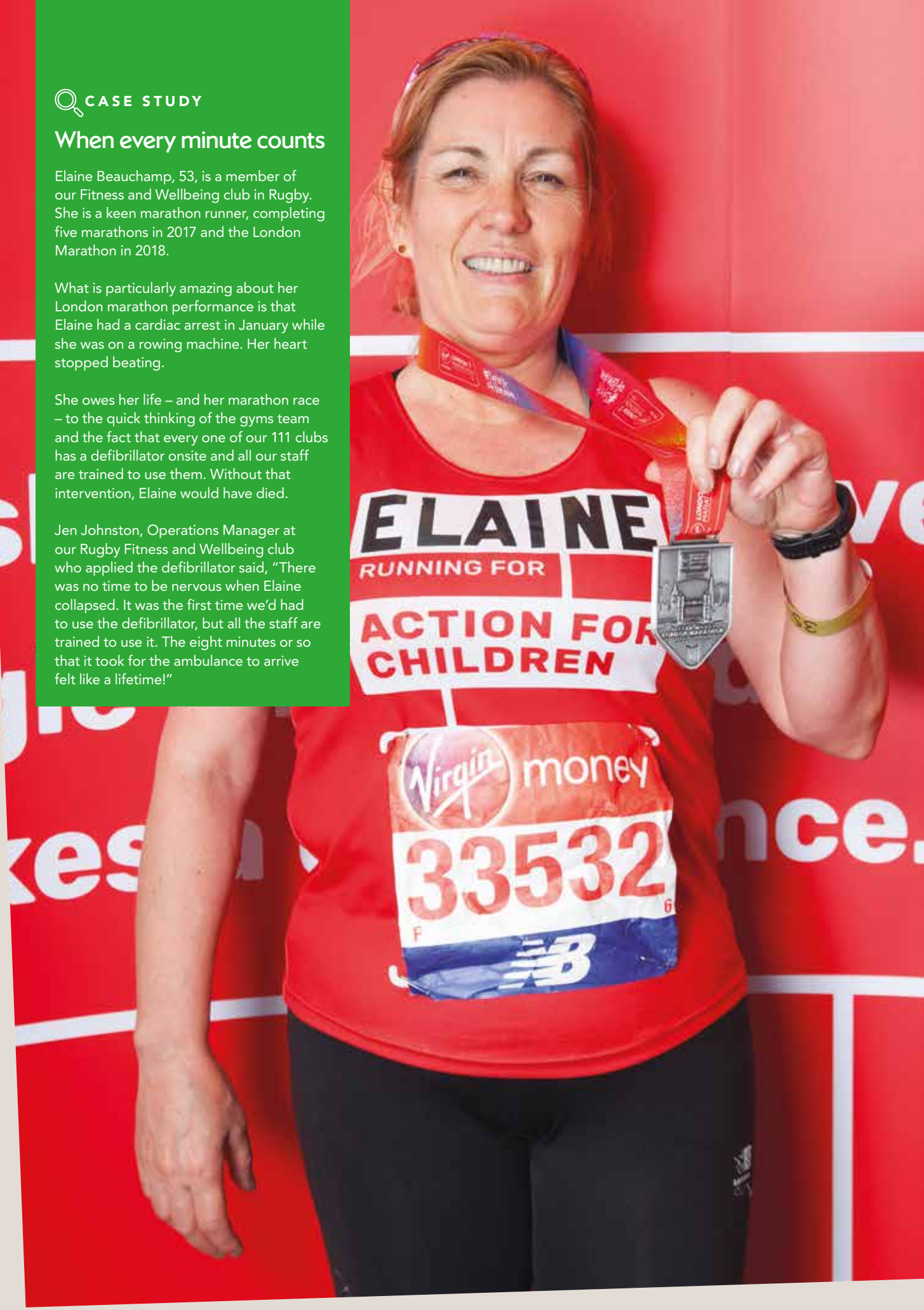
When every minute counts

Elaine Beauchamp, 53, is a member of our Fitness and Wellbeing club in Rugby. She is a keen marathon runner, completing five marathons in 2017 and the London Marathon in 2018.

What is particularly amazing about her London marathon performance is that Elaine had a cardiac arrest in January while she was on a rowing machine. Her heart stopped beating.

She owes her life – and her marathon race – to the quick thinking of the gyms team and the fact that every one of our 111 clubs has a defibrillator onsite and all our staff are trained to use them. Without that intervention, Elaine would have died.

Jen Johnston, Operations Manager at our Rugby Fitness and Wellbeing club who applied the defibrillator said, "There was no time to be nervous when Elaine collapsed. It was the first time we'd had to use the defibrillator, but all the staff are trained to use it. The eight minutes or so that it took for the ambulance to arrive felt like a lifetime!"



Quality services and outcomes

– continued

Our high standards have been recognised within our industry. During 2017, we collected several awards: Private Hospital Group of the Year from both the Health Investor Awards and the Laing Buisson Awards, and a Nursing Times Award for Infection Prevention and Control.

Despite these very pleasing results, we never rest in the pursuit of delivering quality excellence – in day-to-day operations, in all our processes and in our plans for the future.

Enhancing our safety

In 2016, we began a project to enhance safety across our 100 operating theatres, and to ensure ongoing best practice within an agreed, bespoke framework. Adapting and evolving our own version of the World Health Organization (WHO) Surgical Safety Checklist was a key part of this project.

The WHO checklist is the 'gold standard' in operating theatre safety, and when used consistently has been shown to reduce errors and adverse events by encouraging communication and clarity. We wanted to make sure that we were using the checklist in a format that worked most appropriately for our surgical teams, and that it was being applied for every procedure without exception.

We began by adapting the checklist, and testing our new process across hundreds of operations, to ensure it delivered the highest level of safety for our patients. Once we were satisfied, we implemented this in all 31 hospitals.

The continued focus on patient safety across all areas will see a second stage of activity to encourage teams to communicate better and feel confident in speaking up about safety concerns, whoever they are.

Assessing patients for surgery

Thorough and robust pre-assessments are a cornerstone of safe and effective care. A comprehensive pre-operative assessment (POA) helps ensure that Nuffield Health patients are at the optimum level of fitness for surgery, and is fundamental to surgical outcomes.

During 2017, we began a review of our POA processes to ensure we were following best practice as outlined by the National Institute for Health and Care Excellence, the Royal College of Anaesthetists and Nuffield Health policy.

This review was conducted across all sites. It covered service provision, quality, safety and efficiency.

We have since streamlined processes, aligned policies and procedures with best practice and provided additional training and support for our staff. We plan to roll out this enhanced POA process in 2018, with a programme of ongoing site visits providing specific support as and when required.

> "We installed automatic defibrillators in all customer and corporate gyms."

Enhancing skills

During the year, we committed to investing in first aid and basic life support in our fitness and wellbeing consumer and corporate sites. We implemented Nuffield Health Life Support, an evidence-based and clinically robust combined Basic Life Support (BLS) and First Aid programme specially designed for our wellbeing clubs. We also purchased and installed automatic defibrillators for all of consumer and corporate gyms following research suggesting that for every minute that elapses before resuscitation is initiated, a person's chance of recovery declines by 10 per cent. When our staff have been called on to use these skills, they have done so successfully (see case study).

We commissioned an external quality review of our resuscitation provision within hospitals to highlight our current strengths and opportunities for further improvement. We also introduced a pilot training course on identifying patients showing signs of deterioration to ensure prompt action in every case.

Governance

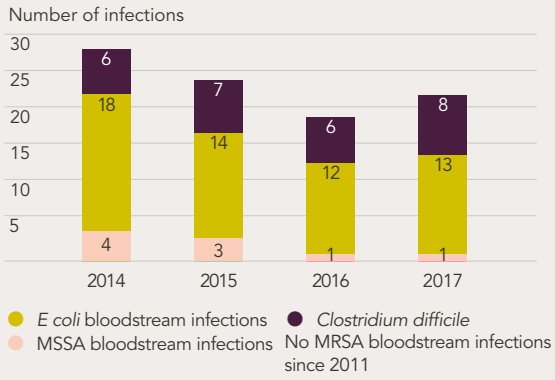
The Quality Committee continued to provide monthly reports to the Operating Board and the regional Operating Boards. This regional governance structure ensures accurate and tight control on delivery of high quality across the organisation.

Quality services and outcomes

– continued

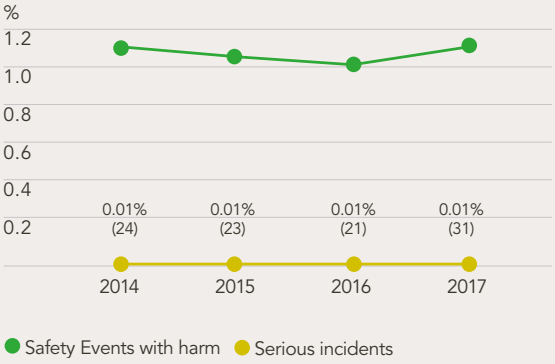
We also enhanced quality reporting at regional levels, within the new regional structures that brought together the fitness and wellbeing teams, primary clinical care and the acute care provided by our hospitals.

Avoidable infections 2014-2017



We participate in the Public Health England (PHE) mandatory surveillance and reporting of healthcare associated infections. Of the eight C difficile cases reported to PHE, one was hospital acquired, the remaining seven were acquired prior to admission. The increase of one E coli infection is in line with the national trend.

Safety events as a percentage of activity



Patient safety incidents are any unintended or unexpected incident which could have, or did, lead to harm. Reporting them helps us learn from mistakes and take action to keep patients safe. An increase in reported safety incidents is evidence that we are being successful in fostering a culture of raising and dealing with issues. Our goal is to further reduce the number of serious incidents that cause harm to patients.

As an acute care provider, we are reliant on the skills and expertise of the consultants who work with us.

We have also been enhancing the ways we work with consultants. We have established a medical society for each of our hospitals. These act as forums to improve communications with the consultants who work with us, and promote clinical excellence. Members of each medical society meet once a year at an AGM to discuss issues and hear business updates from the Hospital Director and meet other senior staff from Nuffield Health.

In September we appointed a new Medical Director, Mahmood Shafi, a consultant gynaecological surgeon and oncologist. He joined from Cambridge University Hospitals NHS Foundation Trust and had previously held director positions in the NHS and been Chair of the Medical Advisory Committee at Nuffield Health's Cambridge Hospital.

Mr Shafi will play a critical role in developing our quality and care initiatives, focusing on the development of clinical pathways, clinical outcome measures and governance, and enhancing medical leadership within Nuffield Health.

Transparency in reporting

Hospital provision is a highly regulated area of activity, as befits the significance of the services provided. There is significant legislation that outlines what hospitals must track and report as indicators of safety and quality.

The reporting requirements for the independent sector are different from those in the NHS. We follow recommended processes, aiming to participate in as many of the reporting systems as we are permitted to, and going above requirements in a number of areas.

The independent sector does not currently have access to the NHS National Reporting and Learning System (NRLS). However we are an active partner in the development of the systems that will replace the current NRLS and we report any incidents involving NHS patients under our care to our Clinical Commissioning Group partners.

We contribute to national clinical audits where they relate to services we provide, such as the National Joint Replacement (NJR) registry and patient reported outcome measures (PROMS). Nine of our hospitals achieved the NJR Data Quality Award.

Revised WHO surgical checklist was rolled out during the year

We provide data to other groups, such as the Private Health Information Network (PHIN), which publishes information on independent hospitals, including patient satisfaction levels, the number of day cases and inpatients we treat and CQC reports.

We publicly disclose and investigate all 'Never Events'. NHS England (2018) define Never Events as "patient safety incidents that are wholly preventable where guidance or safety recommendations that provide strong systemic barriers are available at national level and have been implemented by healthcare providers". Not all Never Events cause serious harm.

All Never Events are investigated by a senior clinical leader from another site and are reviewed by our Quality Committee. Lessons learned are cascaded to all sites and implementation is monitored.

In 2017, we had five Never Events across our hospitals. This was a reduction of more than 50 per cent on the previous year and followed the concerted safety campaign and revised WHO check list that we rolled out in the year. Of these five incidents, three were cases of local anaesthetic administered to the wrong side, one was a surgical incision made in the wrong place and one was a situation in which an implant was incorrect, but was immediately rectified during the procedure. While serious and preventable, none of these resulted in severe harm.

We have used the learnings from 2017 to develop our quality improvement objectives for this year – these are outlined below. We will continue to share the success stories and the lessons learned across the organisation, in keeping with our values and behaviours.

Improvement plan for 2018

Key objectives	What we plan to do
Building on our safety culture	• Continue with our pre-operative assessment project and roll out to all sites • Conduct a review of venothromboembolism (VTE) policy and practice • Extend the adoption of the Nuffield Health bespoke World Health Organization (WHO) surgical checklist to departments such as radiology
Building on ability to learn lessons when things go wrong continuing to develop our trust culture	• Refresh and update our incident management system (DATIX) in all clinical areas • Undertake root cause analysis training for all senior clinical leaders • Implement the Nuffield Health 'Learning from Death' review • Invest in our theatre managers through a bespoke training programme • Improve our approach to, and understanding of, complaints and concerns
Enhancing our governance	• Refresh all policies, policy directories and accessibility for all clinical staff regardless of site or location • Improve reporting and transparency, enhancing our ward to Board reporting
Reviewing key services in line with best practice across a complex service delivery model	• Review key areas of our high performing services such as children's services to ensure that we continue to develop and grow • Roll out Dementia Friends training

Our people

As an organisation focused on helping people on their health and wellbeing journey, our people have a positive impact on customer and patient experience.

Fulfilling our charitable purpose is reflected through the number of people we help, and the way we provide our health and wellbeing services. More importantly, it is reflected through the way our people make our customers, patients and members feel.

We employ just over 16,000 people in a wide range of roles in our hospitals, fitness and wellbeing gyms, central support functions areas, medical centres, hospital sterilisation units and corporate client premises.

People join us because they have a passion for what they do. It is this passion that helps us provide consistently high quality care and customer experiences.

Engaging our people

Our people are more engaged with the organisation when they are part of the conversation and have a role in building a shared meaning, purpose and ambition for the future.

This year, we have put a strong focus on discussing and understanding what our values and our behaviours mean and how we can bring them to life in everything we do. Our values and behaviours were drawn from conversations with colleagues so they truly reflect what we stand for as a charity and ensure we all know what is expected of us and how this connects to delivering a great customer and patient experience.

Great leadership

Leadership and engagement go hand in hand. Having employees who are engaged, willing and wanting to contribute their best, needs leaders who are able to influence people to perform tasks willingly, efficiently and competently, aligning and emotionally connecting people to our vision and purpose.

In 2017, alongside developing our leaders' behaviours to reinforce our values, more than 80 leaders took part in a programme to enhance their capabilities. This covered skills from leading through change and values-led leadership to interpersonal awareness and developing stakeholder connections.

Reshaping our organisation

In 2017, we continued on our journey to create a connected health and wellbeing organisation. We moved from teams that were built around our service lines – such as hospitals, gyms and physiotherapy – to teams that are built around geography and regions, supported by central teams.

180
employees enrolled on apprenticeship schemes

49
people completed surgical first assistant training


We worked to embed our behaviours throughout the year

CASE STUDY

Championing mental health

Charlie is a marketing manager at Nuffield Health – she also volunteers as one of our workplace mental health champions.

"Usually over a coffee or a walk and completely confidentially, we help people at work offload any concerns they have. I know how important and valuable it is just to open up. A little over two years ago, I was diagnosed with cancer. That experience taught me that it was ok to say 'I am not great' when asked how you are, and how valuable just having someone listen to you really can be."

There are now 36 mental health champions across Nuffield Health, working to help their colleagues in the same way as Charlie.

In 2017, we had 380 Health Care Assistants complete our quality care qualification, including this team from Derby.

Our people

– continued

This was designed to create connections for our teams and enable each of our regions to take a broader view of their local healthcare market. By operating regionally and with simplified reporting lines, we also have clearer accountability to ensure we maintain our excellent quality care. Fundamentally, by operating this way, we can accelerate our move towards a connected and seamless customer experience.

"Our people are more engaged with the organisation when they are part of the conversation."

In October, we outlined further plans to simplify our structures and respond to market pressures and lower our costs. This led us to reduce the number of roles in head office and impacted on a number of employees.

Wellbeing for a wellbeing organisation

We spend a large portion of our lives at work. Our experiences in the workplace make a sizeable contribution to our overall mental and physical health. We provide free membership to our fitness and wellbeing clubs for all of our employees and in 2017 we recognised that there was more we could do for our people on providing them with support for their emotional wellbeing.

So we put in place activity to promote awareness among leaders and colleagues of the impact of work on mental health. We wanted to empower our people to start driving the change on how mental health is perceived and break the stigma; we wanted our teams to feel confident talking about their concerns and how they make them feel.

We created a network of mental health champions, providing them with the training to help others. Our champions can provide space and advice for individuals who feel a need to talk, whether it is about work or outside the working environment, and they can signpost what further advice and support our people can benefit from.

Gender pay

This year we published our Gender Pay Gap for the year ending April 2017 in accordance with government requirements. At 4.8 per cent, our mean gender pay gap for hourly pay is below the national average, and when comparing the median figures – that is the midpoint across the salary spread – our median pay is 6.2 per cent higher for women than it is for men. Our report highlighted that while we employ more women than men, women are under-represented at the most senior level roles and we now need to understand what is driving this and make a plan to address this.

Our progress and impact continued

Diversity and inclusion

We will strive to embed equality, diversity and inclusion in everything we do. Gender is just one of a number of equality issues relevant to the workplace. In 2018 we will broaden this discussion into one of diversity, inclusion and equality of opportunities and respecting difference in our organisation. We will explore what more we can do to support all of our people in reaching their full potential, and in ensuring that we can support them in their ambition.

Talent

Having the right talent in place is critical to our success. In 2017, we reset our talent strategy to ensure it was aligned and informed by our business strategy. We refocused on the critical talent that will enable us to deliver our current requirements and our future strategic aims. Our talent strategy is also responsive to external market challenges and internal organisational transformation. Our strategic approach to talent pays attention to four critical talent categories:-

- Executive talent and leadership
- Critical clinical talent
- Business critical talent
- Future capabilities.

A number of programmes are now in place to support these key areas.

Critical clinical talent

We have focussed on a number of clinical roles which are key to our quality agenda, primarily those which are difficult to recruit, engage and retain, ie nursing and theatre practitioners. We have recently launched our clinical prospectus to our nursing and Allied Health Professionals (AHP) community. We have continued to recruit and develop an annual intake of newly qualified nurses via our preceptorship programme with over 25 colleagues having successfully completed the programme to date.

We have partnered with De Montfort University and launched an accredited professional development programme that extends the clinical practice of our nurses and operating department practitioners working across perioperative care. This fully-funded initiative will result in the training of 180 surgical first assistants over three years. To date, 49 of our clinicians have successfully completed this programme and are working as surgical first assistants in our operating theatres.

4.8%
our mean gender pay gap for hourly pay

36
mental health champions

Accelerating apprenticeships

In 2017, we made a significant commitment to invest more in apprenticeship programmes. We were one of the first UK employers to gain 'Employer Provider' status. This has enabled us to deliver apprenticeship qualifications in-house, allowing certain programmes to be bespoke to our needs, with a firm focus on quality. By the end of 2017, we had already enrolled over 70 employees on our in-house leadership apprenticeship programme entitled 'One Nuffield Future Leaders Programme', aimed at first line team leaders who are new to leadership.

In addition, we have set up the processes required to start utilising our apprenticeship levy funds and enrol other employees on a broad range of apprenticeship qualifications. By the end of 2017, we had 180 employees enrolled on an apprenticeship qualification in roles such as Health Care Assistant, Personal Trainer, Nursery Nurse and Pharmacy Technician. Our ambitious plan will continue during 2018, targeting over 350 employees enrolled onto apprenticeship qualifications.

Academy

We are proud of our Academy, our dedicated training and professional development department, which offers a wide range of accredited training modules in professional skills and management in addition to our induction programmes, workplace toolkits and mandatory training portfolio. Along with our Academy Online, modules are accessible to staff at a time of their choosing. We work hard to ensure everyone who works with us has the right capabilities and skills to put customers and patients at the centre – as well as opportunities to fulfil their own career.


We continue to champion equal opportunities for everyone within the organisation.

Brand loyalty

Being a trusted provider and partner takes hard work. To benefit the people we help and care for, our partnerships with experts and organisations must be founded on mutual trust and transparency.

Staying close to our customers and patients is essential to understanding how we are meeting their expectations. To evaluate how we are performing, and discover where there may be room for improvement, we continuously track satisfaction levels.

To ensure we really do meet – and indeed exceed – the expectations of everyone we help, across all our services and facilities, we emphasise the importance of stepping into our patients' and customers' shoes. This means seeing Nuffield Health through their eyes. We track how we are doing in a range of ways, including through customer satisfaction surveys, Net Promoter Scores (NPS) and Patient Report Experience Measures (Prems).

In our hospitals, we have continued to see exceptional patient satisfaction levels and have achieved 96 per cent. We consistently hear from patients how they value the care and professional treatment they receive and how friendly and supportive they find our staff.

We have also been making a concerted investment this year to improve customer satisfaction within our fitness and wellbeing clubs and with our other clinical services, including physiotherapy. As part of our improvement plans, we set up additional training for all sites with negative scores.

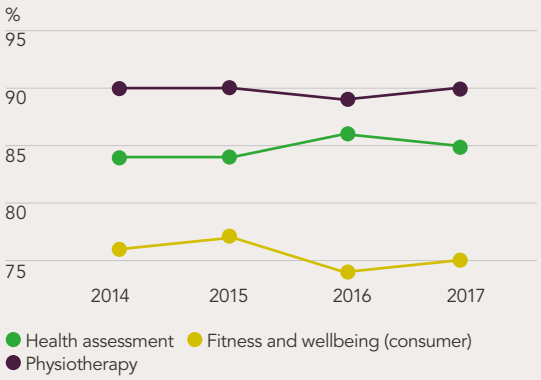
Satisfaction with the workplace wellbeing services we provide to our corporate customers has improved. We have received positive comments from our corporate customers on the quality of our fitness teams. In these sites, we are committed to enhancing our corporate services, refreshing our class programmes and replacing equipment when an issue is identified.

Handling complaints

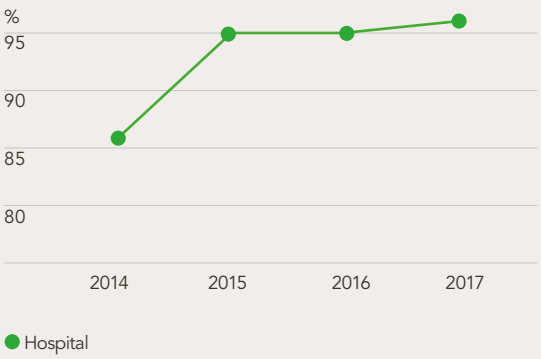
If a customer or patient has a concern or complaint, they are actively encouraged to discuss this informally with the relevant staff or they are guided through the formal complaints process if they wish to escalate their concern or complaint. Complaints are investigated openly and transparently and lessons are shared to improve the quality of care and service which we provide to all of our customers and patients.

For 2018, we will be centralising the complaints team as part of improving the overall customer experience. As part of this, we will align the policy and process to ensure that complaints are handled quickly and effectively.

Wellbeing satisfaction (%) 2014-2017



Hospital satisfaction (%) 2014-2017



Customer satisfaction

We track customer satisfaction rates as a measure of customer loyalty to our brand and trust in our services. Customer Satisfaction is calculated from the scaled responses to the question of how satisfied customers are with our services.

Our people work to ensure customer satisfaction in every interaction.

"We endeavour to create an environment where all the professionals who provide advice and services to our patients and customers can perform at their best."

Complaints now also fall under the remit of the Chief Customer Officer to ensure that there is a focus on providing excellent customer service throughout all of our customer interactions.

Our partners and providers

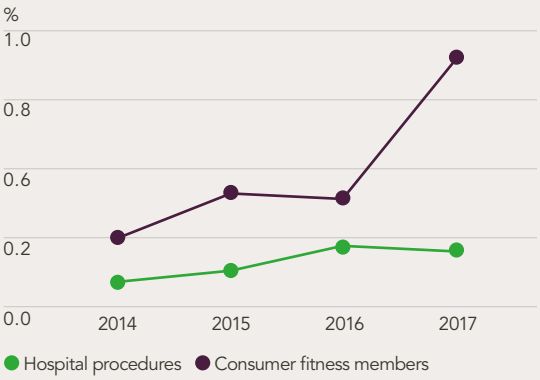
Our operating model relies on a number of key partners and providers for us to offer a joined up health and wellbeing offering. We seek to build strong partnerships with the consultants who treat patients, and with those who refer people to our services – including the NHS, private medical insurers and GPs.

We endeavour to create an environment where all the professionals who provide advice and services to our patients and customers can perform at their best – from facilitating peer support and clinical education opportunities through to offering a range of engagement opportunities encouraging mutual understanding and clear communication.

This year, we have focused on building our relationships with the Medical Advisory Committees (MAC) at each of our 31 hospitals. Each hospital has its own MAC which represents the medical practitioners who practise at the hospital. Members of the MAC are elected by Consultants who hold Practising Privileges in the hospital.

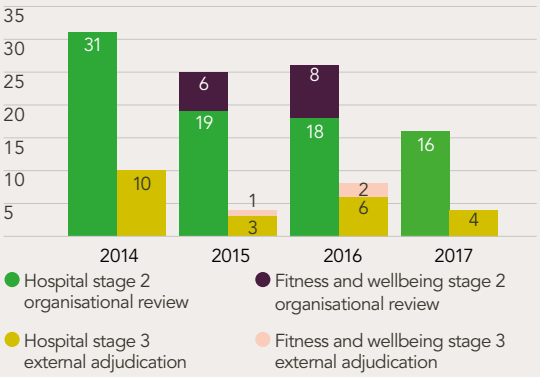
These groups have an important role in areas including hospital governance, quality and safety standards, practising privileges and clinician discipline. They also are a key forum

Customer complaints as a percentage of activity 2014-2017



We saw an increase in complaints from our newly acquired consumer clubs, as we worked through their integration.

Customer complaints escalated



Complaints process

We follow a three stage process, focusing on local resolution wherever possible. Stage 1 is local resolution, usually dealt with by the Hospital Director or Club General Manager. If the complaint progresses to stage 2, it is reviewed by the complaints manager who has not been involved at Stage 1 and is removed from the hospital/club. Stage 3 is an independent review, conducted by an ISCAS Independent Adjudicator.

Photo: Simon Kadula/shutterstock.com

CASE STUDY

Recovery a 'Plus' for Sally

Sally is 74 – but to her that's just a number. "I love skiing and keeping active, but for many years I had been suffering knee problems that were holding me back". To sort out her knees, Sally got in touch with our hospital in Plymouth and was ultimately referred, for treated for knee replacement surgery.

But the treatment didn't end there. We offer our joint replacement patients continued support and targeted physiotherapy and membership at our Fitness and Wellbeing clubs for the length of the programme. This specialised three-month programme, called Recover Plus, is unique to us.

Sally has been working with her personal trainer to get back to her active self. She has also become a gym convert in the process. "Even after the programme ends, I will be continuing here with pilates and exercises to keep me as healthy and fit as possible," Sally said.

Brand loyalty

– continued

for constructive, two-way communication between the consultants and the hospital and are intended to support and maintain quality, safety and measurable health improvement in the patient services provided.

Our educational grants system provided 26 consultants with funding for work that aims to improve quality of care and patient safety in Nuffield Health hospitals. These grants help support consultants in their practice, as part of our wider Nuffield Health engagement strategy.

Supporting the NHS

We have continued to work closely with our NHS partners throughout the year. While the NHS had an extremely challenging financial year, and a particularly tough winter, we remained available to support with elective surgery through the NHS waiting list transfer programme. This offers patients the option of treatment from within the NHS eReferral Service under the same terms and conditions as their local NHS trust hospital.

Such NHS-funded work allows patients to be seen and treated rapidly within the independent sector, and procedures are reimbursed at the standard NHS tariff, with the same performance targets and safety standards as in an NHS hospital.

Major changes occurred in the process for referring NHS patients for orthopaedic surgery, with physiotherapy led triage becoming a common way to manage demand for services. To ensure that patients are fully informed about the choices that they are entitled to make and that the patient referral process runs as smoothly as possible, our hospitals teams actively engage with the relevant organisations.

Working with private medical insurers

After creating a single point of contact within Nuffield Health for each insurer in 2016 – regardless of the types of services we offer – in 2017 it became easier for each insurer to engage with us. We continued to build on this reorganisation throughout the year, illustrating the benefits of working with us for both the insurer and their customers. For example, we highlighted our mental and emotional wellbeing service and our network of musculoskeletal experts, and how these link into our integrated, connected health approach.

Our enhanced recovery programme, Recovery Plus, shows how integrated health and wellbeing can work in practice while additionally working as a clear differentiator, illustrating how Nuffield Health can deliver more effective outcomes for insurers' customers, and reduce overall costs.

Connected health

We are designing our systems and services to help patients and customers take control of their health and wellness. We are building a network of experts and personalised services.

By connecting our health and wellbeing services, we are pioneering a unique form of personalised healthcare. In 2017, we made further progress to build connections and enhance the customer and patient experience.

Connecting our teams

At Nuffield Health, the broad range of expertise that we have allows us to look at a person as a whole. We have thousands of health experts, from personal trainers and physiotherapists through to emotional counsellors, nutritionists, doctors, surgeons, nurses and occupational health experts.

We can look after the whole person – from the physical to their emotional and nutritional health and wellbeing.

The emotional side of health

When we acquired CBT Services last year – a small group of experts in emotional wellbeing and mental health – we had big plans. The emotional element had been the missing part to our overall healthcare approach. So the addition of these experts to our clinical professionals meant we could place as much importance on mental wellbeing as on physical health.

We have refurbished theatres and recovery suites.

Connected health

– continued

Contact Centre teams were brought under one roof in Dorking, delivering improved customer service.

Our focus in 2017 has been on integrating the services into our organisation, and offering them to our customers. Initially, we made the services available to our workplace wellbeing customers: employers who recognised the important of mental health in the workplace. The response has been very positive.

In fact, in one large construction employer, we set up an onsite clinic with one of our counsellors. In the time the clinic has been there, the site has developed significantly with regards to understanding common language around mental health conditions. As a result, employees are now recognising symptoms in each other and recommending our counsellor for further support.

£89 million
investment in 2017

300
jobs created in Dorking support centre

By the end of the year, we had the infrastructure in place to begin to offer counselling sessions through our fitness and wellbeing clubs, which we will expand in 2018.

Technology investment

Our Electronic Health Record (EHR) project reached a significant milestone with the roll out of the system to our first pilot hospital in Bristol in July. The TrakCare EHR system captures information for each patient across the entire interaction with the hospital: that includes administrative and clinical records, and the treatment pathway, through to billing.

This launch could only take place following months of work by the team and the TrakCare supplier to configure it to support our connected way of delivering care. There then followed intensive training for the Bristol team in how to use the system.

> "We place as much importance on mental wellbeing as we do on physical health."

By the end of the year, our Chesterfield Hospital in Bristol had been operating its four theatres, a ward and outpatient department using the system every day. We are now working towards a further two hospitals piloting the TrakCare system, with the aim of implementing it in all our hospitals over the next three years.

We also introduced a new system in our hospitals to manage blood supplies. The Bloodhound system is an electronic tracking system that we have added to our storage units and transfusion management system.

It enhances the integrity of the blood stock supply as well as tracking transfusions and blood samples for our patients. It provides fully secure access and computerised reporting as well as stock management systems for blood, allowing bedside transfusion management, patient observation monitoring and reporting, with real time alerts and communications.

During 2017 we installed three state-of-the-art Mako™ robotic arm systems. This system works alongside the surgeon from the pre-surgery planning stage through to assisting in the surgery itself in order to improve the accuracy and precision of the procedure. For future patients this means they should now experience faster recovery times along with less pain and swelling. Additionally, due to the implants being more accurately positioned, the functional results and longevity may be further enhanced.

Investment in our estate and our people

To help us deliver the best experience for all our patients and customers, in 2017 we brought all our customer contact teams together under one roof in a new facility in Dorking, Surrey. Bringing three disparate groups together in one place allows us to create a centre of excellence for customer interactions, as well as providing great opportunities for our own employees' learning and development.

Our commitment to continue to invest in our facilities remains: in 2017, we put £89 million into capital expenditure projects. These included new surgical theatres at our hospital in Taunton and a number of gym refurbishments. Our plans to develop a new hospital on the site of – but independent of – Barts Health NHS Trust hospital in London are currently under way.

However, challenging market conditions did cause us to hold the construction of our new hospital in Manchester.

Motivating employees

We want as many people as possible to access excellent health and wellbeing services at their workplace. In 2017, we created a unique joint venture with Vitality Health to provide employers with a digital health and wellbeing solution suitable and affordable for the entire workforce.

The partnership takes a holistic approach to employee health, providing a range of tools to help employers understand their employees' physical and mental wellbeing needs and motivations. The joint venture combines Vitality Health's expertise in the use of incentives and rewards to nudge healthier behaviours with Nuffield Health's extensive range of health expertise and knowledge.

CASE STUDY

Our electronic health records journey

The team leading the implementation of our new electronic health record (EHR) system are taking the concept of 'rolling out' their project literally. They have converted a double decker bus into a mobile training space, so that they can travel around to our hospitals.

The bus offers a cost effective 'venue' for training hospital teams and consultants on the EHR system. The first stop on its maiden journey was Vale Hospital in Cardiff.

During 2018, the team will be working to roll out the new system across two additional hospitals, ensuring our connected health journey is continuing across the country.

Financial sustainability

Despite challenging trading conditions we grew underlying turnover and, excluding the impact of acquisitions, continued to invest in developing key areas of the business.

Overview

Despite the challenging trading conditions, hospitals revenue increased in 2017 by 2.0 per cent with strong growth in self-pay. Wellbeing revenue, underpinned by the full year impact of 2016 acquisitions, grew 19.2 per cent year on year.

The operating surplus before exceptional items was down £6.7m year on year to £14.1m, and is reflective of the investments made in operational advancements and transformation programmes aimed at improving the quality and efficiency of our services, continued pressure on margins and higher amortisation charges following the acquisitions last year.

Exceptional costs are excluded from headline performance metrics due to their size and nature, and in order to reflect management's view of the underlying performance of Nuffield Health. Exceptional items totalling £19.9m have been included in the current year income statement, the three key drivers of which are outlined below.

Our annual impairment testing resulted in a charge of £11.3m. This comprised an increase in onerous lease provisions (£6.3m) and a fixed asset impairment charge (£5.0m), limited to a number of Wellbeing sites. Reorganisation and transformation activities (£5.0m) related principally to the operating model reorganisation carried out during the year and the development of an Enterprise Resource Planning (ERP) system to replace aging HR and finance systems. These exceptional items contributed to a net deficit of £23.8m (2016 – net surplus of £2.6m).

During the year, we also performed a post-acquisition review of the 35 consumer sites acquired last year and have subsequently adjusted the net assets at a number of these sites. This exercise also included a review of the carrying value of the goodwill on the acquisition, the results of which demonstrated that the recoverable value of the goodwill remains higher than the carrying value.

The annual actuarial valuation of the pension fund gave rise to a gain of £26.0m (2016 – loss of £42.5m) leading to an increase in net funds of £2.2m (2016 – decrease of £39.9m).

Key financial indicators:

	2017	2016
Group Turnover	**£909m**	£840m
Adjusted EBITDA*	**£94m**	£89m
Adjusted EBITDA as percentage of group turnover	**10.4%**	10.6%
Operating Surplus before exceptional items	**£14m**	£21m
(Deficit)/surplus after tax	**£(24)m**	£3m
Capital Expenditure (excluding acquisitions)	**£89m**	£86m
Net debt	**£389m**	£366m
Leverage (net debt divided by adjusted EBITDA*)	**4.1**	4.1

* *Adjusted EBITDA is calculated as total operating deficit (£5.8m) with exceptionals (£19.9m), depreciation (£56.9m) and amortisation (£23.2m) added back*

Overview

Revenue in both Hospitals and Wellbeing have grown this year to £909 million and adjusted EBITDA to £94 million. Record number of consumer members reached aided by 2016 acquisition.

Continued capital investment in key areas of the business has led to an increase in net debt. However, the improvement in adjusted EBITDA kept year-end leverage at the same level as last year.

Hospitals

Hospitals turnover at £561.3m increased by £11.1m (+2.0 per cent) on last year. Overall procedural turnover was up £6.8m (+1.6 per cent), although volumes were marginally down by 0.8 per cent. Very strong self-pay volumes more than compensated for a decline in the private medical insurance (PMI) market and a drop in NHS referrals.

Diagnostics revenues grew by +3.5 per cent to deliver over £100m for the year, and this included strong growth in PMI and self-pay which exceeded lower NHS revenues.

Wellbeing

£359.4m total turnover from Wellbeing businesses was up £58.3m (+19 per cent) in the year, reflecting increases in all areas. On a like-for-like basis, Wellbeing increased turnover by £12.1m (1.5 per cent).

Consumer fitness turnover increased £54.7m to £250.2m with £51.9m of this increase from sites acquired in 2016. The year closed with a record number of club members.

Corporate fitness, now comprising 174 onsite facilities, generated turnover of £42.9m, was marginally up on last year, driven by growth in ancillary services.

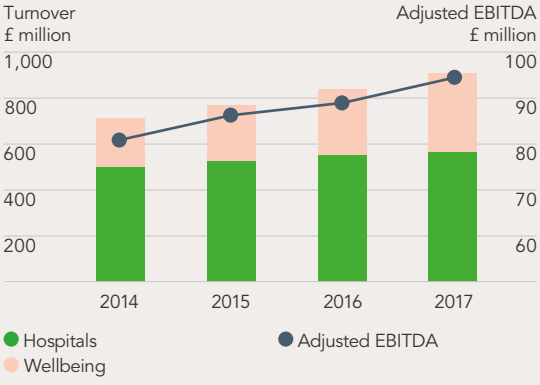
Clinical services, which include physiotherapy and health assessments, continued to grow, with turnover of £66.3m in the year, up £3.6m (+5.7 per cent) on 2016.

The acquisition of the 35 consumer sites in 2016 has proven to be successful and has allowed us to reach more members and contributed £91.5m of turnover this year (2016 – £37.9m).

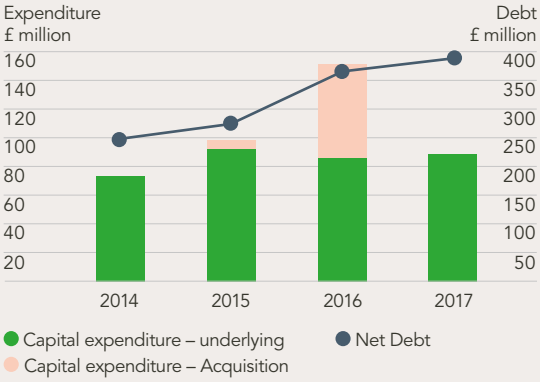
Investment for the future

Nuffield Health uses the funds generated from trading, supplemented by borrowings, to maintain existing assets and to invest in improving the sites and services with an unwavering aim of improving the quality of experience and outcomes for customers and patients. In 2017, £89m was invested in a wide variety of capital projects – refurbishing hospitals, operating theatres and wellbeing centres, new clinical and fitness equipment, developing and rolling out new systems, and substantial spend on replacing core building fabric.

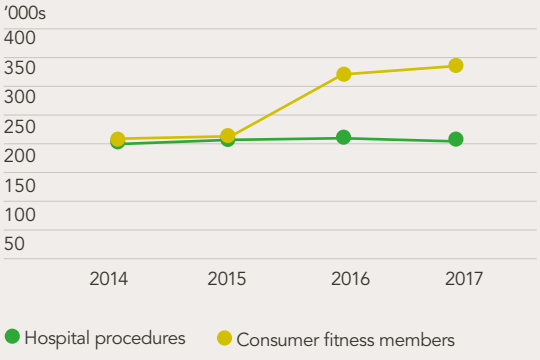
Turnover and adjusted EBITDA 2014-2017



Capital expenditure and net debt 2014-2017



Volume of procedures and members 2014-2017



Risk management

By monitoring and assessing the current and emerging risks that have the potential to impact our activities, we can make the best decisions for our customers, people and organisation.

Nuffield Health reviews risks on a regular basis, using a structured risk management approach which is overseen by the Board of Trustees. This approach is used to identify, evaluate and prioritise risks that Nuffield Health is exposed to, to develop effective mitigating controls and, where appropriate, direct internal audit or other assurance efforts.

Risk management is primarily undertaken by two committees of the Board:

- The Board Audit and Risk Committee governs the risk management approach for strategic, commercial and financial risks
- The Board Quality and Safety Committee governs the risk management approach for clinical and health and safety risks.

The roles and responsibilities of the Audit and Risk Committee and Board Quality and Safety Committee are explained on pages 44 and 45.

Detailed risk registers and risk updates are reported to the Executive Management Team for consideration and evaluation. Gross risks are identified and prioritised based on the likelihood of occurrence and impact in the event of occurrence. The residual or net risk is the level of risk that remains after taking into account mitigating controls and countermeasures. Net risks can vary due to changes in external factors such as market events or legislative changes, changes in the effectiveness of the control environment and other internal changes or developments.

The overall risk management framework is a combination of bottom-up and top-down approaches with each category of risk being allocated to a member of the Executive team, who in turn is responsible for reviewing and monitoring all the risks allocated to them, and their associated controls.

The Executive Management Team and the Board of Trustees receive updates from their respective sub-committees and hold management to account to not only be aware and take ownership of risks that may affect business performance, but also to plan and implement appropriate controls to mitigate risks to an acceptable level.

The key risks identified with the highest net risk scores after mitigating actions and controls have been put in place are summarised as follows:

Primary risks

Nuffield Health has evolved, and continues to evolve, its approach to risk management during the year and this is reflected in how the primary risks have been updated:

1. Economic climate

Consumer spending is positively correlated with the economic climate. There is therefore a risk that a decline in the economic climate could lead to a reduction in revenues and cash flow. Uncertainty about the impact of Brexit and some anticipation of rising interest rates continues to underpin economic uncertainty in the UK.

This risk is mitigated through: ongoing internal business reviews and the monitoring of external indicators including: consumer confidence, spending trends and market forecasts, careful management of expenditure and cash management.

2. Regulatory and policy environment

Changes in regulations and legislation can affect the way Nuffield Health operates. There is therefore a risk that changes in this environment cause Nuffield Health to be exposed to increased costs, penalties, sanctions and reputational damage.

This risk is mitigated through: a continuous improvement focus in hospitals; a diverse customer base to ensure not too great a reliance on the NHS; mandatory training on key topics; Nuffield Health's legal team monitoring and reacting to anticipated legislative changes; internal dedicated specialists with functional knowledge and expertise; and the use of consultants and independent experts where appropriate.

3. Key partner relationships

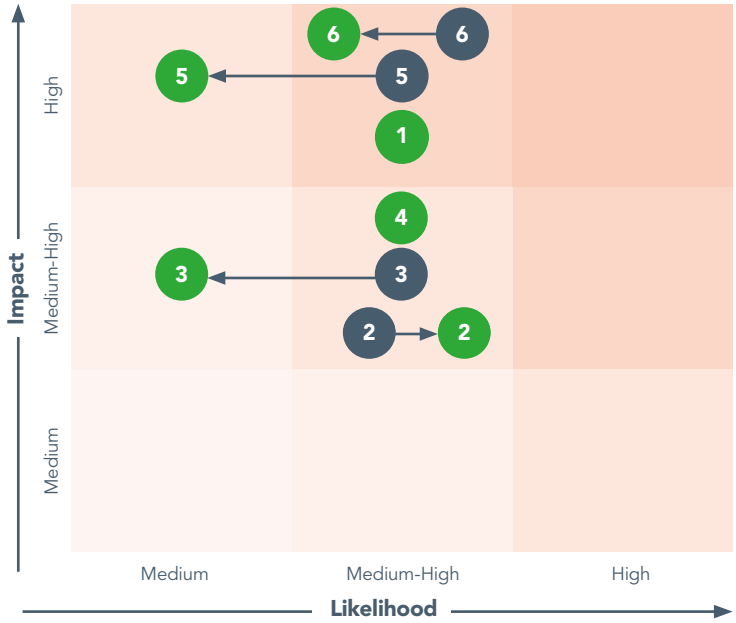
Nuffield Health provides services to patients and customers on behalf of a number of key partners including the NHS, corporate clients and private medical insurance providers. There is therefore a risk that Nuffield Health is exposed to commercial risks associated with any temporary or enduring loss of business arising from a change of commercial relationships with our large customers, or increased competition due to changes in market dynamics.

Key
(over the last 6-12 months)

- Risk reduced
- Risk stayed the same
- Risk increased

1 Economic climate
2 Regulatory & policy environment
3 Key partner relationships
4 Cyber security
5 Service propositions
6 Clinical safety and quality of care

Movement of primary risks



This risk is mitigated through: our strategy; further growing self-pay patient activity; senior leadership proactively managing national and local relationships; and working closely with Clinical Commissioning Groups, the NHS and its various committees and bodies.

4. Cyber security

There is a risk of a cyber security incident and/or serious data protection breach that could result in legal, contractual and/or regulatory consequences, as well as reputational damage. The risks include external hackers and malware, physical security attacks and sensitive data being lost or accessed without authorisation. During the year, there were well-publicised occurrences of security breaches at large organisations in the UK.

This risk is mitigated through: having a dedicated IT security team managing, monitoring and maintaining cyber security; regular assurance reporting (to the Executive Management Team and Trustees); certification to ISO 27001 and Cyber Essentials Plus, which are independently audited and tested; and by having regular independent technical security testing.

5. Service propositions

Nuffield Health must continue to develop and innovate its services and propositions to meet the ever changing and increasing demands of its patients, customers and partners. There is therefore a risk that failure to do so could lead to a loss of market share to competitors and consequently a reduced ability to deliver our charitable purpose.

This risk is mitigated through: continually innovating in the delivery, further exploration of new services and propositions via partnerships, affiliations and is informed by market research and monitoring of trends and developments.

6. Clinical safety and quality of care

Patient safety is our highest priority. The provision of health care can by its very nature be risky and high quality outcomes cannot always be guaranteed. There is a risk that our consultants, people or equipment may not always perform to the highest possible standards. Patient outcomes cannot always be predicted and unexpected complications may develop.

This risk is mitigated through: fostering a culture of transparency, continuous learning and that encourages openness, so that people are confident speaking up if they feel something is not right. This enables us to recognise problems, correct them, investigate and share and embed the lessons learned. Our governances processes, enshrined in the Quality Assurance Framework, ensure we continuously monitor our standards to identify emerging themes and trends; our Quality Improvement Plan ensures action to continuously improve the quality and safety of our care.

Our Board of Trustees

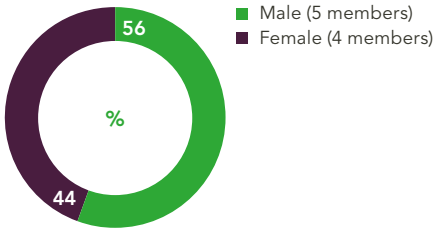
The Board is responsible for ensuring the Charity is carrying out its purpose, setting the strategic direction, overseeing risk management and governance and supporting the Chief Executive Officer, who leads the Executive Management Team, towards achieving the Charity's vision and purpose.

At the date when the Annual Report and Financial Statements were approved, the following Trustees were in place:

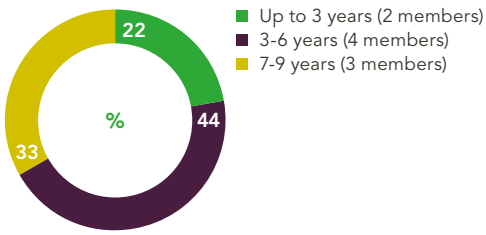
Russell Hardy Ⓝ Ⓕ Ⓡ
Chair of Board, Chair Nominations Committee
Appointed: 2012
Experience: An economist and accountant by training, Russell has extensive experience in retail and management, having held a number of senior and board level roles. He has spent the past 10 years of his career in the healthcare market working with NHS, private equity and commercial providers
External appointments: Executive Chairman of Fosse Healthcare; Chairman of the South Warwickshire NHS Foundation Trust; Chairman of Wye Valley NHS Trust.

Joanne Shaw Ⓠ Ⓝ
Deputy Chair and BQSC Chair
Appointed: 2011
Experience: As past chair of NHS Direct, Joanne has a strong interest in the use of mobile and digital channels for health and medicines. In her professional roles and in her writing for health publications, she advocates partnership between patients and health professionals.
External appointments: Non-Executive Director and Chair of Audit and Risk, NHS England; Chair of the British Equestrian Federation.

Gender diversity



Tenure



Martin Bryant Ⓐ Ⓕ
Chair Finance and Investment Committee
Appointed: 2013
Experience: Martin has extensive experience of strategy, marketing and how to position an organisation. He has worked at the Home Office and FTSE 250 companies, including Boots the Chemist.
External appointments: Non-executive positions with Government Procurement Service; the Scout Association; Wesleyan Bank and Wesleyan Assurance Society; Trustee of Vision Aid Overseas

Areas of responsibility of the Board of Trustees:

- Ⓐ Member of the Audit and Risk Committee
- Ⓠ Member of the Board Quality and Safety Committee
- Ⓝ Member of the Nominations Committee
- Ⓕ Member of the Finance and Investment Committee
- Ⓡ Member of the Executive Remuneration and Succession Committee

Fiona Driscoll Ⓐ Ⓕ Ⓡ
Chair Audit and Risk Committee
Appointed: 2010
Experience: Fiona focuses on the interface between the public, private and third sectors, focusing on strategy, governance and risk. She has particular experience in healthcare, research, innovation and commercialisation, and the transformation of public services.
External Appointments: Chair Wessex Academic Health Science Network: Board Member & Chair of ARAPC, UK Research & Innovation: Member HM Treasury Major Projects Review Group, Council member Bradford University, Board Member Institute of Leadership.

David Lister Ⓠ Ⓐ
Appointed: 2014
Experience: David brings over 35 years of experience working in IT and operations across multiple industries for large, international businesses such as Diageo, GlaxoSmithKline, Boots, Reuters, RBS and National Grid.
External appointments: Non-Executive Director HSBC Bank, FDM Group, Co-operative Insurance, Weatherbys; Board member, Department for Work and Pensions; Trustee of the Tech Partnership.

Dr Natalie-Jane Macdonald Ⓠ
Appointed: January 2017
Experience: Natalie-Jane has a strong understanding of the healthcare sector, beginning as a physician and clinical lecturer, then joining the British Medical Association as Head of Medical Ethics and International Affairs.
External appointments: Non-Executive Director, Private Healthcare& Information Network (PHIN); Associate Non-Executive Director, Royal National Orthopaedic Hospital.

Dame Denise Holt Ⓠ Ⓝ Ⓡ
Appointed: 2013
Experience: Dame Denise has experience of working with a range of private and public sector organisations, including Ofqual and the NHS Pay Review Body. She was British Ambassador to Mexico and Spain and Andorra.
External appointments: Non-Executive Director of HSBC Bank; Chair M&S Bank (an HSBC subsidiary); Chair, Council, University of Sussex.

Guy McCracken LVO Ⓝ Ⓕ Ⓡ
Chair, Executive and Remuneration and Succession Committee
Appointed: 2010
Experience: Guy has a wealth of knowledge of the food sector, with a range of roles in food retailing spanning four decades. He has extensive experience in retail and management including Board Director, and joint Managing Director of Marks & Spencer, and Chairman of Duchy Originals.
External appointments: Chair, Branston Holdings Ltd.

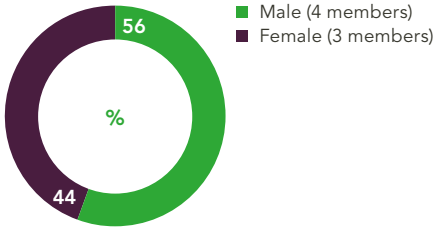
Steve Maslin Ⓐ
Appointed: July 2017
Experience: As an audit and transaction services partner for Grant Thornton, Steve specialises in listed and large private businesses. He was Chair of the Partnership Oversight Board, and Head of Assurance Services at Grant Thornton UK.
External appointments: Audit and Transaction Services Partner, Grant Thornton, non-executive member, Audit and Risk Committee, Ark Schools Academy Trust; Trustee, The Gurkha Museum.

Our Executive Management Team

Our Chief Executive Officer, with the assistance of the Executive Management Team, is responsible for the management of the organisation, for developing the strategic direction for approval by the Board, and for implementing the agreed strategy.

At the date when the Annual Report and Financial Statements were approved, the following senior executives were in place:

Gender diversity



Steve Gray
Chief Executive Officer
Steve took over the role of Nuffield Health Chief Executive Officer on 1 December 2015. He previously led the development of the health and wellbeing services at both Lloyds Pharmacy and subsequently at AS Watson, where he was Healthcare Director. Steve has over 40 years' experience, with the past 25 years in management, working primarily within the healthcare sector, holding a number of leadership, commercial and operational positions.

Executive Board changes in 2017/2018

Dr Andrew Jones, Chief Operating Officer
Served until August 2017.

Greg Hyatt, Chief Financial Officer
Served until October 2017.

Martin Friend, Chief Operating Officer
Joined in November 2017.

Debbie Mansfield, HR Director
Served until December 2017

Sharon Bridgland-Gough, Chief People Officer
Joined in January 2018.

Caroline Smith, Chief Quality and Assurance Officer
Joined in January 2018.

Jenny Dillon, Chief Finance Officer
Joined in April 2018.

Chris Blackwell-Frost
Chief Customer Officer
As Chief Customer Officer, Chris is responsible for the marketing, sales and customer propositions of Nuffield Health. He joined the organisation in April 2016, bringing over 25 years of experience across the healthcare and pharmaceutical sectors. Originally a pharmacist by training, Chris brings with him experience in sales, clinical services development, strategic marketing, acquisitions and brand development. Previously, he has worked at Lloyds Pharmacy, AAH Pharmaceuticals and Celesio UK.

Jenny Dillon
Chief Finance Officer
As Chief Finance Officer, Jenny is responsible for Finance, Procurement and Property for Nuffield Health. Prior to joining Nuffield Health, she headed up the UK Finance Senior Leadership team and led the Finance Business Partnering teams for National Grid. She has also held a number of senior finance roles at Central England Co-operative Society and in healthcare, working for Lloyds Pharmacy.

David Liverseidge
Chief Information Officer
David took up the position of Chief Information Officer in January 2017. Prior to this he had been leading the organisation's business technology agenda for hospitals. He is passionate about the application of technology to improve customer experience, transform the way the business operates and improve lives. David previously held technology related leadership roles in UK and international organisations, including AstraZeneca and Sony Corporation.

Sharon Bridgland-Gough
Chief People Officer
Sharon began her career in healthcare, working for the NHS in London and Scotland, and has since held a number of senior executive roles within global and national organisations. She joined Nuffield Health from Cardtronics, the largest global independent ATM business, where she held the position of Chief Human Resources Officer.

Martin Friend
Chief Operations Officer
Martin originally joined the organisation as Operations Director in 2009. He led the development and growth of the Consumer fitness and wellbeing business, growing the number of sites to over 110 in the UK. Martin has over 20 years' experience in the health, leisure and retail sectors, passionately leading business transformation, operational delivery and numerous acquisitions.

Caroline Smith
Chief Quality and Assurance Officer
Caroline has a wealth of industry experience spanning across a wide range of healthcare services. This relates to regulated and unregulated, outsourced services alongside the pharmaceutical industry and direct to the NHS. Prior to Nuffield Health, Caroline was a Partner at Management Solutions for Healthcare where she worked with Healthcare at Home, A S Watson and the Pennine Acute NHS Hospitals Trust.

Enhancing our governance and quality of care

Russell Hardy
CHAIRMAN

To ensure Nuffield Health can fulfil its charitable purpose effectively and sustainably, the Board remains focused on achieving the highest standards of quality care, governance and integrity. We are also aware of our responsibilities as Trustees to the long-term financial sustainability, without which we would be unable to support people in achieving their health and wellbeing aims.

In the following pages, we set out details on the composition of our Board, its corporate governance arrangements, processes and activities during 2017, and provide reports from each of the Board's Committees.

Last year I reported on the work by the Board and the Executive Management Team to develop, approve and put in place a new five year strategy. This year the implementation of that strategy gained momentum. This strategy is fundamental to enabling the organisation to remain on track despite some challenging market conditions.

As a Board, we seek to operate in an open, accountable and transparent manner, and encourage constructive challenge in a respectful and professional environment. We also seek to embed these behaviours throughout Nuffield Health in order to develop a culture that supports the achievement of our charitable purpose.

The quality of our discussions at the Board remains high and the diversity of experience and skills ensures we fully debate issues. This year these discussions have benefited from two new additions to the Board.

Natalie-Jane MacDonald joined us at the beginning of 2017, bringing to the Board her experience both as a practising physician and as someone who has held leadership roles within the British Medical Association and the private medical insurance industry. In July, Steve Maslin also joined the Board. With his background and experience in audit and public policy matters at Grant Thornton, he has provided impactful insight and expertise.

In terms of good governance, the Board has taken a close interest in recent developments. We reviewed and considered The Charity Governance Code, which replaced the Code of Good Governance. While this is Code is not a regulatory requirement, as a well-governed charity we strive to model best practice. We are confident that the organisation is governed on a basis consistent with The Code's principles.

As a Board, we are also mindful of the ongoing policy-objective work to raise the bar on corporate governance practices and effectiveness. The Board will consider how these new requirements impact our reporting approach in future.

It has been a busy, rewarding year for Nuffield Health employees, customers and patients. I look forward to 2018 and making further progress in our aim of helping individuals achieve, maintain and recover to the level of health and wellbeing to which they aspire.

The Board of Trustees approved this Trustee's Report on 30 May 2018. I commend this report to all of our Members.

Russell Hardy
CHAIRMAN

Structure, governance and management

Structure and management

Nuffield Health is a registered charity incorporated under the Companies Acts 1948-2006, being a company limited by guarantee without share capital. The Charity's governing document is the Articles of Association. It is governed by a Board of Trustees.

The Trustees of the Charity are also Directors of the company and collectively constitute the Board.

The Board is responsible for setting strategy, ensuring that there are the necessary financial, human and physical assets to meet the Charity's strategic aims; monitoring the performance of the Charity; overseeing risk management; and setting the Charity's values.

Trustees

Trustees are recommended by the Nominations Committee. They are appointed by vote by the members, during the Annual General Meeting.

The Trustees and Chairman are appointed for a period of three years and are eligible to stand for re-election, but limited to serving a total aggregate of nine years. For more information about our Trustees and their areas of responsibility, see pages 38 and 39.

Members

Nuffield Health is a registered not-for-profit organisation, and also a company limited by guarantee without share capital. As such, it has no shareholders. Instead, it is required by company law to have members who are, literally, the company. Members act as nominal guarantors in the event that the company should ever be wound up, with liability limited to £1.

Members have a constitutional role at the heart of Nuffield Health's governance and accountability.

Membership is an unpaid position and Nuffield Health may not distribute any profits or assets to its members.

Members are entitled to vote at our Annual General Meeting, where accounts are approved and Trustees are elected. They are kept informed about our progress throughout the year. Our current membership includes former staff, former Trustees, consultants, and people who were involved in raising the funds which founded some of our hospitals.

Committees

All Trustees serve on one or more of the Board Committees. Any Trustee may attend any Board Committee meeting. The Committees are delegated specific responsibilities by the Board as outlined below. They provide counsel, expertise and support to the Executive Board.

Details of membership of Committees are shown in the table on page 44.

Board Committees undertake an evaluation of performance annually and use the results to support improvements in the governance of the Charity.

Board of Trustees

The Board of Trustees met 13 times in 2017 with a full and comprehensive schedule of work. The Board's agenda has been focused on four main areas: the long-term strategy of Nuffield Health; reviewing new opportunities to extend the charity's reach; continuous improvements in quality and outcomes; and enhancing the governance and assurance of the Charity.

Following on from the approval of a new five year strategy in 2016, the Board this year focused on the structure and governance of the organisation and its financial commitments. The Board is mindful of its responsibilities to balance investment in reaching more people with our services, and our ability to access capital as a Charity. The outcome of the review was a re-aligned regional structure and strong financial control mechanisms to ensure good governance on spend.

We maintained our focus on high quality care and outcomes. The Board, supported by the Board Quality and Safety Committee, assessed our ongoing improvement plans to enhance processes, management and culture. The Board has also been mindful of the case of the breast cancer surgeon Ian Paterson, and with the BQSC, we have reviewed and strengthened our governance processes in relation to our consultants and interactions with our NHS partners.

Finally, Trustees' responsibility for good governance has been a theme of the Charity Commission this year, and much helpful guidance has been released. The Board remains mindful of its responsibilities. This year, significant steps were taken to further strengthen the governance and assurance processes around both financial sustainability and the clinical aspects of the Charity's work and respond to new legislation.

Audit and Risk Committee

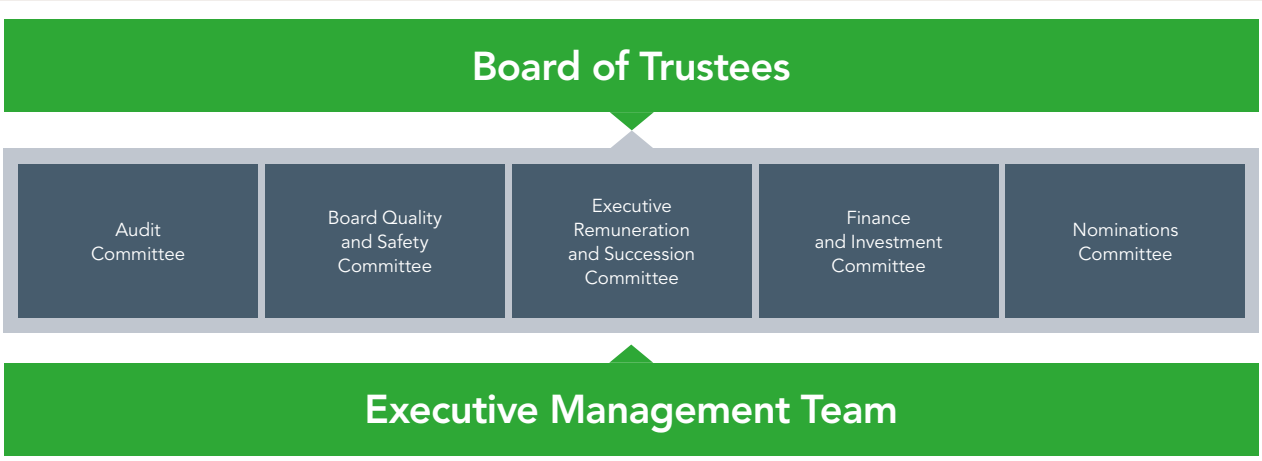
The Audit and Risk Committee met four times in 2017 and once in April 2018 to review Annual Report and accounts and receive the report from the external auditor. Representatives of the external and internal auditors attended the meetings, as did the Chief Executive Officer, the Chief Financial Officer, the Company Secretary and selected other invited management representatives for their expert input on specific topics.

The purpose of the Board Audit and Risk Committee is to provide the Board of Trustees with

- Independent and expert advice on the accuracy and integrity of financial reporting, including an assessment of any key audit and accounting judgements or issues.
- An assessment of the efficacy of the non-clinical control environment.
- A recommendation for the appointment of the external and internal auditors, safeguarding the principles of objectivity and independence.

Board Committees

Nuffield Health Board of Trustees and Committees



Board attendance 2017

Trustee	Board of Trustees	Audit and Risk Committee	Board Quality and Safety Committee	Executive Remuneration and Succession Committee	Finance and Investment Committee
Number of meetings in 2017	13	4	4	3	5
Numbers attended					
Russell Hardy (Chairman)	12	3	–	3	2
Martin Bryant	13	4	–	–	5
Fiona Driscoll	10	4	–	3	2
Dame Denise Holt	12	–	3	3	–
David Lister	12	2	4	–	–
Dr Natalie-Jane Macdonald (Joined in February 2017)	12	–	2	–	–
Steve Maslin (Joined in July 2017)	4	2	–	–	–
Guy McCracken LVO	9	–	–	3	5
Joanne Shaw	11	–	3	–	–

The Committee reviewed the draft Annual Report and Accounts and recommended their approval to the Board of Governors. As part of its review, the Committee considered whether the Annual Report and Accounts provided a fair and balanced assessment of the Charity's position and performance, as stipulated by the UK Corporate Governance Code.

The Committee's assessment of whether the Annual Report and Accounts was fair and balanced included an analysis of key audit and accounting judgements and issues, the presentation of KPIs, the consistency of the narrative reporting at the front of the report with the financial performance information at the back of the report.

The Committee also considered the following key audit and accounting issues:

1 Impairment	Issue: Judgement is required when reviewing the carrying value of assets to determine whether they are impaired. Trigger tests are performed e.g. an assessment of whether performance is in line with expectations, and provide an indicator of potential impairment. Management subsequently prepare a value in use model or obtain valuations to assess the asset's carrying value and calculate an impairment charge where appropriate.	Response: The Committee reviewed and challenged the methodology applied to test impairment. The Committee considered changes to the methodology, comparing it externally with other companies. The Committee satisfied itself that the assumptions used and the resulting impairment charge were reasonable.
2 Onerous leases	Issue: Judgement is required when determining the extent to which future lease payments exceed anticipated economic benefits, as forecast cash flows consider both indirect costs and capital expenditure. Management subsequently prepare an assignment value to estimate the alternative strategy of exiting the lease and calculate an onerous lease provision where appropriate.	Response: The Committee reviewed and challenged the judgements management made in determining the onerous lease provision. The Committee considered changes to the methodology, comparing it externally with other companies. The Committee satisfied itself that the assumptions used and the resulting provision were reasonable.
3 Prior year restatement	Issue: Judgement is required when assessing whether it would be appropriate to adjust the prior year balance sheet for information identified in a subsequent period.	The Committee reviewed and challenged the assertion that the fair value of the assets acquired in the acquisition in 2016 be updated based on the valuation now determined. The Committee satisfied itself that the judgement was reasonable.

External Auditor appointment
Following a competitive tender process, Deloitte LLP (Deloitte) replaced Grant Thornton as Nuffield Health's external auditor in 2017. The Committee will continue to review the auditor's performance on a regular basis with a formal tender process being no later than in 10 years.

The Committee reviewed and accepted Deloitte's plans and priorities for their audit work for the 2017 financial year and reviewed their independence through the level of non-audit fees (tax advisory/compliance services) paid to the auditor. No concerns with regard to Deloitte's independence were identified.

Internal Auditor appointment
During the year Nuffield Health undertook a competitive tender process for its internal audit function. This was to remove the potential conflict of interest with the external auditor as this was previously carried out by Deloitte.

PriceWaterhouseCoopers LLP were appointed to take over the Charity's internal audit activities. The Committee, supported by management, has reviewed and approved their internal audit plan ensuring it targets the key risks of the business, and will continue to monitor management's responses to their reports, findings and recommendations.

During the year the Committee received and then challenged management on the findings of internal audit reports. In the second half of the year the Committee began the process of evolving its risk management process in co-operation with the Board Quality and Safety Committee. This process is still in development and will be advanced further in 2018.

Board Quality and Safety Committee
The Board Quality and Safety Committee (BQSC) provides internal quality control assurance by monitoring and reviewing the effective operation of clinical governance throughout the group and considers clinical risk and health and safety matters as well as statutory and regulatory oversight. It is responsible for driving a sound quality culture in line with the Charity's core values and behaviours.

Joanne Shaw is the chair of the BQSC and deputy chair of the board. Dr Natalie-Jane MacDonald joined the Board in January 2017 and became a member of the BQSC in July 2017 making the number of governor representative to three. Roger Taylor continued to provide independent input to the BQSC during 2017.

The Chief Executive Officer, Chief Operating Officer, Medical Director, Clinical Director and Chief Nurse, HR director attend the BQSC along with other individuals, as the BQSC deemed appropriate.

The Committee met four times in 2017. It oversaw the continued development of the quality assurance framework across both hospital and clinic based services focusing on embedding a continual quality improvement culture, learning lessons and embedding change at site level and developing our approach to consultant engagement and practice in light of the Ian Paterson case.

The committee also reviewed its overall term of reference and the approach to ensuring high quality oversight. The local level Quality Committee provided the BQSC with clear oversight of quality and trends and themes. In addition, the BQSC approved a new structure to embed a culture of quality 'ownership' at both the local and regional level, through the regional Quality Care Partner role and function, supporting hospital and non-hospital sites develop a quality culture. The maturing Expert Advisory Groups (EAG's) gathered pace during 2017 driving quality and safety across important clinical areas.

The progress of the organisation in the area of quality is summarised in our annual Quality Assurance Report (pages 18 to 23 and page 91). This discusses outcomes of the various elements of safety and quality programmes across all services provided by Nuffield Health. The Quality Assurance report 2017 is incorporated within the 2017 Annual Report.

Executive Remuneration and Succession Committee

The Committee, which is responsible for Executive remuneration and succession planning, is chaired by Guy McCracken and includes three additional Trustee members. It met three times in 2017.

The committee is responsible for setting an appropriate remuneration policy that rewards the contribution and performance of the Chief Executive Officer and the senior executives while also recognising the charitable purpose of the organisation.

It is our policy that total remuneration packages comprising basic salary, pension contributions, performance based annual bonus and organisation wide employee benefits, should be competitive while also reflecting the organisation's charitable status. The Committee reviews the performance of each of the executives annually and pays particular attention to the cultural and behavioural aspects of performance as well as delivery of objectives.

The Committee conducts an annual review of salaries and every two years reviews a detailed market benchmarking survey undertaken by an independent consultant. The main focus is on the general commercial sector from which most executive talent is recruited and the market median for total cash compensation is used as an initial benchmark for the various executive roles. The Committee then determines the appropriate levels of compensation taking account of the charitable status of the organisation and any available information from the health and wellbeing and not-for-profit sectors.

Details of the number of employees working on the charitable activities whose total emoluments and benefits (excluding employer pension contributions) exceed £60,000, are shown within the Financial Statements under Note 11.

The committee believes in transparency and this year is disclosing the pay ratio of our CEO relative to the Nuffield Health median salary, which is 23:1. This is calculated as the CEO annual basic salary as a ratio to the workforce FTE median annual salary as at 31 December 2017.

The Committee is also responsible for considering the succession needs of the organisation and ensuring there are appropriate plans in place for both the immediate and longer term future.

The issue of succession planning is a matter for the whole Board of Nuffield Health. However, the Committee plays a key role on behalf of the Board in ensuring that appropriate succession plans are in place across the organisation. This approach ensures Nuffield Health is well prepared for any short-term eventualities as well as its longer term needs.

Finance and Investment Committee

The Finance and Investment Committee is a delegated Committee of the Board of Trustees and plays a key role in the challenge and recommendation for approval of major financial commitment and expenditure proposals. It also reviews post investment appraisals of major projects and holds management to account on any key lessons learned.

In line with the prevailing delegation of authority policy, the Committee reviews all proposals reserved directly for approval by the Board or which otherwise exceed the stipulated authority limit of the Chief Executive Officer (CEO) and the Executive Board. Specifically the Committee reviews all capital expenditure proposals in excess of £2m and operating cost commitments in excess of £5m.

Below those levels, authority is delegated to the CEO and the Chief Financial Officer (CFO), and below that, up to specified limits there are cross-functional management committees which approve lower level capital and operating expenditures within the bounds of the approved budget or forecast. Higher authorities are required for non-budgeted expenditure and other specific types of commitment such as cost or revenue contracts exceeding a certain period of time, insurance and legal settlements and certain employee-related payments.

The Committee meets at least quarterly and comprises four permanent Trustee members with the CEO and CFO in attendance plus selected other invited management representatives as required. It met five times in 2017 to review proposals which included, among others, contracts for the supply of new fitness equipment, major refurbishments at hospitals, major IT contracts, a catering contract renewal, a high-value contract renewal for hospital consumables, the post investment appraisal of a major acquisition, investment in an ERP (Enterprise Resource Planning).

Trustees' Nominations Committee

The names of prospective Trustees are referred to the Nominations Committee. This Committee also considers recommendations for appointment for Membership of the Charity. No person may be appointed as a Trustee unless he or she is a Member.

During 2017, the members of the Committee were Russell Hardy, Denise Holt, Guy McCracken and Joanne Shaw.

Three of the existing Board are due to retire by 2019, the remainder retiring in the period 2020 to 2023. The Committee has begun the process to recruit new Governors to ensure appropriate numbers are in place prior to the start of 2019.

The Committee met in early 2017 to consider Trustee recruitment. In 2017, Dr Natalie-Jane Macdonald and Steve Maslin were approved by the Committee and joined the Board and a further recommendation will be proposed at the AGM held in 2018.

To facilitate the effective commencement and discharge of their Trustee role, all new Trustees are provided with an induction pack which includes the Charity Commission's *Essential Trustee* guidance, the charity's governing documentation and comprehensive information on its strategy to deliver its charitable objects, alongside on-going support coordinated by the company secretary. Nuffield Health is fortunate in being able to attract Trustees of high calibre with extensive governance experience in highly regulated and/or listed company environments.

Trustees' Remuneration Committee

The Trustees' Remuneration Committee was established in 2000, following the approval of the Charity Commission to permit the remuneration of the Trustees.

The Committee is responsible for making recommendations regarding Trustees' remuneration. During 2017, the members of the Committee were Douglas Gardner (Chair), Michael Smith and George Fergusson. The Committee met in early 2017 and again towards the end of the year.

The Committee discussed the review of the Trustees' remuneration, Board composition and continuity the recruitment of new Trustees and appraisal of Trustee performance.

Details of the fees paid to the Trustees, including money purchase pension contributions, are shown within the Financial Statements under Note 10.

Board review of the Modern Slavery Act 2015

In accordance with Nuffield Health's values and overarching commitment to acting ethically and with integrity in all our relationships, the prevention, detection and reporting of modern slavery and human trafficking is the responsibility of all those working for the Charity and any associated organisations.

Nuffield Health supports and complies with the provisions of the Modern Slavery Act 2015 (The Act). Relevant organisational policies have incorporated an obligation for compliance and this has been reflected in the Charity's employee induction and training materials. We are undertaking a review of our current suppliers for compliance, informing them of our expectations of compliance and, where higher risks have been identified, undertake an audit as appropriate. The obligation for compliance with The Act will also be incorporated into all new supplier relationships.

Reserve policy

The Trustees do not have a reserve target as the financial sustainability of the Group is assessed through the reviews of cash forecasts.

The Group has used and will use most of its surplus cash to invest in operational fixed assets that improve or increase the Charity's activities. Therefore there are no freely available reserves and negative free reserves are expected for the foreseeable future.

Trustees' review of our objectives

Each year, the Trustees review the Charity's objectives, its activities and the degree to which the services it provides are made accessible to the public.

This review examines the Charity's achievements and the outcomes of its activities in the previous 12 months, together with the benefits delivered to users of the Charity's services. Crucially, the Trustees' review also ensures that the Charity remains focused on providing public benefit.

The Trustees continue to give careful consideration to the Charity Commission guidance on public benefit and in particular to its guidance for fee charging charities. The Trustees have also considered the level of access and affordability of all its services to each section of the population, in particular to those on a low income.

Nuffield Health has policies to clarify – both to those inside the organisation and those outside – how it should deliver benefits to the public, fulfilling its charitable objectives.

These include:

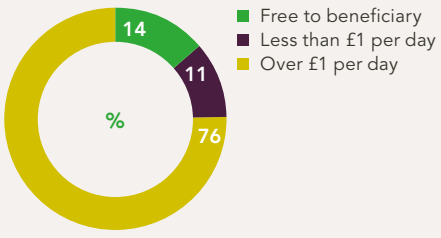
- a limit of 10% on activities that are ancillary to the objectives of the Charity. This is to ensure nothing excludes or causes detriment to our core purpose
- the establishment of guidelines by which any ancillary or fundraising activities can be judged, ensuring that they are directly related to and necessary for carrying out the Charity's purposes
- a requirement that no activities are detrimental or harmful
- a requirement that at least 5% of the Charity revenue comes from products and services available at a low fee
- the requirement that products worth at least 5% of total revenues – if valued at the market rate – are available free at the point of delivery.

The Trustees' are also aware of the responsibilities to ensure the Charity continues to deliver its charitable services. This is only possible if the Group has sufficient cash and loan facilities to continue in operational existence. Cash flow forecasts are prepared regularly and following their reviews the Trustees have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future after taking into consideration the risks contained within the forecasts and for this reason continue to adopt the going concern basis in preparing the financial statements.

The Trustees have concluded that the objectives of the Charity remain entirely for the public benefit. The Trustees are also satisfied that the activities of the Charity are overwhelmingly carried out to fulfil its charitable objectives; that there are no activities that are inconsistent with its objectives; and that the Charity meets the requirements of the policies described above.

In addition, the Trustees are confident that plans are in place for 2018 that will further enhance the accessibility of the Charity's activities, particularly in relation to services available for young people at low cost or free at the point of delivery.

Share of turnover (%)



In 2017, 25% of our revenues came from low cost or free at the point of delivery products and services. With 11% from products and services costing customers less than £1 per day, 14% of our revenues at market rates were from products and services free at the point of delivery to the patient or customer that were purchased by the NHS.

Trustees' responsibilities for the financial statements

The Trustees, who are also Directors of Nuffield Health for the purposes of company law, are responsible for preparing the Strategic Report, the Trustees' Report and the financial statements, in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year. Under that law, the Trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law, the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the Group and of the incoming resources and application of resources, including the income and expenditure, of the charitable company and the Group for that period.

In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and apply them consistently
- observe the methods and principles in the Charities Statement of Recommended Practices (FRS 102)
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK 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 Group will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provision of the trust deed. The Trustees are also responsible for safeguarding the assets of the charitable company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees confirm that:

- so far as each Trustee is aware there is no relevant audit information of which the charitable company's auditor is unaware; and
- the Trustees have taken all steps that they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Relationship with subsidiaries

All the subsidiaries are wholly owned by the Charity and the directors are members of the executive management.

Those activities carried out by subsidiaries are non-charitable activities, activities coming with acquisitions that have not been transferred to the Charity or businesses that are being developed with the aim of selling or entering into a partnership with another organisation.

The aim is for the subsidiaries to make a return to the Charity. Inter-company loans and trading are covered by written agreements.

Independent auditor's report to the Members and Trustees

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent charitable company's affairs as at 31 December 2017 and of the Group's and the parent charitable company's incoming resources and application of resources, including the Group's and the parent charitable company's income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Nuffield Health (the 'charitable company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated and charity statement of financial activities;
- the balance sheets;
- the consolidated cash flow statement;
- the accounting policies; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and of the parent charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the trustees' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Trustees

As explained more fully in the Trustees' Responsibilities Statement, the Trustees (who are also the directors of the charitable company for the purpose of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Group's and the parent charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Group or the parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charitable company's Members and Trustees, 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 charitable company's Members and Trustees 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 charitable company and the charitable company's Members and Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Trustees' Annual Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report included within the Trustees' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company's 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.

We have nothing to report in respect of these matters.

Craig Wisdom
(SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP
Statutory Auditor
St Albans, UK
30 May 2018

Consolidated income statement
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Turnover	2	**909.1**	839.5
Cost of services		**(871.2)**	(785.5)
Gross surplus		**37.9**	54.0
Support costs	3	**(43.5)**	(34.3)
Share of joint venture interests		**(0.2)**	–
Total operating (deficit)/surplus before interest and tax	6	**(5.8)**	19.7
Comprising:			
Operating surplus before exceptionals		**14.1**	20.7
Exceptional items	5	**(19.9)**	(1.0)
Net interest payable and similar income	7	**(18.0)**	(17.1)
(Deficit)/surplus on ordinary activities before taxation		**(23.8)**	2.6
Tax on (deficit)/surplus on ordinary activities	12	**–**	–
(Deficit)/surplus after tax for the financial year		**(23.8)**	2.6

All amounts derive from continuing activities.

The consolidated income statement includes all gains and losses other than those arising from actuarial gains or losses on defined benefit retirement schemes and other post retirement benefits and changes in the market value of the fixed asset investments. These items are presented in the Consolidated and Charity statement of financial activities on the following page.

The accounting policies and notes on pages 56 to 90 form part of these financial statements.

Consolidated and Charity statement of financial activities
for the year ended 31 December 2017

	Notes	Group Total funds* 2017 Total £m	Group Total funds* 2016 Total £m	Charity Total funds* 2017 Total £m	Charity Total funds* 2016 Total £m
Income and endowments from					
Donations and legacies	2	**–**	0.1	**–**	0.1
Charitable activities	2	**905.7**	836.7	**905.7**	836.7
Other trading activities	2	**3.4**	2.7	**–**	–
Investments	2 and 7	**0.4**	0.1	**1.2**	1.8
Total income and endowments	2	**909.5**	839.6	**906.9**	838.6
Expenditure on charitable activities					
Before exceptional items	3	**(891.5)**	(816.1)	**(891.7)**	(814.6)
Exceptional items	5	**(19.9)**	(1.0)	**(19.9)**	(1.0)
Interest payable	7	**(18.4)**	(17.2)	**(19.4)**	(20.9)
Other expenditure					
Other trading activities		**(3.3)**	(2.7)	**–**	–
Share of joint venture interests		**(0.2)**	–	**–**	–
Total expenditure		**(933.3)**	(837.0)	**(931.0)**	(836.5)
Net (expenditure)/income					
Before exceptional items		**(3.9)**	3.6	**(4.2)**	3.1
Exceptional items		**(19.9)**	(1.0)	**(19.9)**	(1.0)
Net (expenditure)/income		**(23.8)**	2.6	**(24.1)**	2.1
Other recognised gains and losses					
Actuarial gains/(losses) on defined benefit retirement scheme	8	**26.0**	(42.5)	**26.0**	(42.5)
Net movement in funds		**2.2**	(39.9)	**1.9**	(40.4)
Fund balances at 1 January		**62.0**	101.9	**60.7**	101.1
Fund balances at 31 December	1	**64.2**	62.0	**62.6**	60.7

* Total funds for the Group and Charity include restricted funds of £0.8 million (2016 – £0.8 million) and permanent endowments of £0.1 million (2016 – £0.1 million)

All amounts derive from continuing activities.

The consolidated and charity statement of financial activities includes all gains and losses recognised in the year. The accounting policies and notes on pages 56 to 90 form part of these financial statements.

Balance sheets
at 31 December 2017

	Notes	Group 2017 £m	Group 2016 Restated Note 26 £m	Charity 2017 £m	Charity 2016 Restated Note 26 £m
Fixed assets					
Intangible assets	13	**103.6**	108.6	**104.2**	109.4
Tangible assets	14	**534.0**	525.9	**530.3**	522.0
Investments	15	**0.2**	0.2	**20.7**	21.0
		637.8	634.7	**655.2**	652.4
Current assets					
Stocks	17	**9.3**	8.7	**9.2**	8.7
Debtors	18	**87.0**	96.5	**88.9**	98.0
Cash at bank and in hand	32	**3.2**	2.9	**3.6**	2.9
		99.5	108.1	**101.7**	109.6
Creditors: amounts falling due within one year	19	**(167.5)**	(160.8)	**(189.7)**	(182.1)
Net current liabilities		**(68.0)**	(52.7)	**(88.0)**	(72.5)
Total assets less current liabilities		**569.8**	582.0	**567.2**	579.9
Creditors: amounts falling due after more than one year	20	**(373.8)**	(369.5)	**(444.1)**	(445.4)
Provisions for liabilities	23	**(35.7)**	(29.2)	**(35.6)**	(29.2)
Net assets excluding post retirement liabilities		**160.3**	183.3	**87.5**	105.3
Post retirement defined benefit liabilities	8	**(96.1)**	(121.3)	**(24.9)**	(44.6)
Net assets		**64.2**	62.0	**62.6**	60.7
Income funds					
Restricted funds	1	**0.8**	0.8	**0.8**	0.8
Unrestricted funds:					
General fund		**159.4**	182.4	**86.6**	104.4
Post retirement reserve		**(96.1)**	(121.3)	**(24.9)**	(44.6)
Total unrestricted funds	1	**63.3**	61.1	**61.7**	59.8
Total income funds		**64.1**	61.9	**62.5**	60.6
Permanent endowment	1 and 24	**0.1**	0.1	**0.1**	0.1
Group funds		**64.2**	62.0	**62.6**	60.7

The accounting policies and notes on pages 56 to 90 form part of these financial statements. Approved and issued by the Board of Trustees on 30 May 2018.

Russell Hardy
CHAIRMAN

Steve Gray
CHIEF EXECUTIVE OFFICER

Company number 00576970. Charity number England and Wales 205533. Charity number in Scotland SCO41793.

Consolidated cash flow statement
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash generated from operating activities			
Before exceptional items	28	**91.4**	83.6
Exceptional items	28	**(5.0)**	(3.5)
		86.4	80.1
Cash flows from investing activities	29	**(95.3)**	(154.2)
Cash flows from financing activities	30	**9.2**	78.7
Net increase in cash and cash equivalents		**0.3**	4.6
Cash and cash equivalents at 1 January		**2.9**	(1.7)
Cash and cash equivalents at 31 December	32	**3.2**	2.9
Reconciliation of net cash flow to movement in net debt			
Increase in cash and cash equivalents for the financial year		**0.3**	4.6
Cash outflow from changes in debt and lease finance		**(21.0)**	(92.4)
Change in net debt resulting from cash flows	31	**(20.7)**	(87.8)
New finance leases	31	**(2.3)**	(3.6)
Movement in net debt in the financial year		**(23.0)**	(91.4)
Net debt at 1 January	31	**(366.0)**	(274.6)
Net debt at 31 December	31	**(389.0)**	(366.0)

The accounting policies and notes on pages 56 to 90 form part of these financial statements.

Accounting policies
for the year ended 31 December 2017

a) Company information
Nuffield Health is a company limited by guarantee without share capital incorporated in the United Kingdom. The registered office is Epsom Gateway, Ashley Avenue, Epsom, Surrey KT18 5AL. In the event of the Charity being wound up, the liability in respect of the guarantee is limited to £1 per Charity Member. There were 67 Members on 31 December 2017.

b) Basis of preparation
The financial statements have been prepared in accordance with UK accounting standards, including FRS 102 and the Charities SORP (FRS 102) 'Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)', and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except as modified to include the fair value basis for certain fixed asset investments, certain financial instruments and post retirement defined benefits.

Nuffield Health is a public benefit entity as defined by FRS 102.

The financial statements are prepared in sterling which is the functional currency of the Group and rounded to the nearest hundred thousand.

The Charity has taken advantage of the reduced disclosure provisions of FRS 102 the Financial Reporting Standard applicable to the United Kingdom and Republic of Ireland (FRS 102) and not disclosed its statement of cash flows.

c) Going concern
After reviewing the Group's forecasts and their accompanying risks, the Trustees have a reasonable expectation that the Charity and the Group have adequate resources to continue in operational existence for the foreseeable future and as a result they continue to adopt the going concern basis in preparing the Annual Report and accounts.

d) Basis of consolidation
The Group financial statements consolidate the financial statements of the Charity and all its subsidiary undertakings drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date the Group obtains control, and continue to be consolidated until the date control ceases. Control is achieved where the Group has the power to govern the undertaking's financial and operating policies so as to benefit from its activities.

Acquisitions of subsidiaries and businesses are consolidated using the purchase method. On acquisition of an undertaking, the undertaking's identifiable assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

Undertakings are deemed to be a joint venture when Nuffield Health has joint control of the rights and assets of the undertaking via either voting rights or a formal agreement which includes that unanimous consent is required for financial and operating decisions.

Joint ventures are consolidated under the equity accounting method. The business only recognises its share of profits or losses from any joint venture.

All intra-Group transactions, balances, incomes and expenses are eliminated on consolidation.

Shares of subsidiary undertakings owned by non-Group companies are included within minority interest, except so far as there are obligations to the third parties that are likely to result in the purchase of those shares, in which case the discounted value of the expected purchase price is reported as a liability.

e) Prior year adjustment
During the year, the Group completed a review of its 2016 acquisition of 35 Virgin Active sites. The review highlighted some changes to the fair value of the net assets acquired. As a result, the acquisition accounting and 2016 year end balance sheet figures have been restated to reflect changes to fixed assets, provisions and goodwill.

There is no impact on overall net assets nor on the 2016 income statement. More detailed information is provided in Note 26.

f) Significant judgements and estimates
The preparation of the financial statements requires the Trustees to make judgements and estimates and to select suitable accounting policies. The nature of the estimation means the actual outcomes could differ from those estimates. The following are items in the financial statements where significant judgements and estimates have been made.

Critical judgements in applying the Group's accounting policies

Impairments of tangible fixed assets and computer software
Tangible fixed assets and computer software are reviewed if events or changes of circumstances indicate that the carrying amount may not be recoverable. For this purpose, individual consumer fitness and wellbeing sites and hospitals are considered to be separate income generating units. For 2017, this is a change in methodology as in previous years all consumer sites were reviewed as a collective.

The impairment tests are based on the fair value arising from property valuations provided by a third party or value in use.

The value in use calculations use cash flow models derived from the budget and exclude significant future investments that will enhance the income generating unit's performance. The value in use method is subject to assumptions on the rate used to discount expected future cash flows and the growth rates used in the calculation.

Goodwill
The amount of goodwill initially recognised as a result of the purchase of a subsidiary or business is dependent on the allocation of the purchase price to the fair value of the identifiable assets and liabilities acquired. The determinations of the fair values are based to a considerable extent on the Trustees' judgement. In general, the useful life of goodwill is less than those of the revalued tangible fixed assets.

Key sources of estimation uncertainty

Defined benefit pensions and other post retirement benefits
In order to calculate the obligation under the defined benefit pension plans and post retirement medical benefits, estimates are made of the future costs using actuarial valuations. Due to the complexity of the valuation and the long-term nature of these plans, such estimates are subject to uncertainty. The most significant assumptions are the rate used to discount the obligations (based on the AA corporate bond yield curve that reflects the duration of the liabilities) and mortality rates, which are set out in note 8.

In the prior year, the Charity has entered into an asset backed funding arrangement with the Nuffield Health Pension and Life Assurance Scheme (the Scheme). It has been concluded that the Scheme is a separate reporting entity to the Charity and therefore the Charity's post retirement defined benefit liabilities are less than the Group's by £71.2 million (2016 – £76.7 million) and the Charity has a pension liability for asset backed funding of the same amount. These are measured at their fair value using a valuation method with the payments and risk free discount rate being the major assumptions. Given these assumptions are subject to variation over time, it is possible that the fair value of the liability recognised by the Charity and the asset recognised by the Scheme could vary significantly in the future.

Estimation of useful lives and residual values of fixed assets
Intangible and tangible fixed assets are amortised or depreciated over their useful lives after taking into consideration their expected residual value. The useful lives and residual values are set at the time the assets are acquired and reviewed annually for appropriateness. The lives are based on historical evidence of similar assets as well as anticipating the impact of future events that may affect their lives.

The estimated useful lives of the intangible fixed assets are set out in accounting policy n) and those for tangible fixed assets in accounting policy o). Historically, the surpluses or losses on disposal of fixed assets have been small.

Provisions
Provisions are liabilities where the amount and/or the timing of the settlement are uncertain.

The onerous lease provision is the single largest provision; its value is based on the lower of the net costs to fulfil the lease or to exit the lease. The costs to exit are based on assignment value. It is a provision for lease contracts on Wellbeing sites where the profits generated after central cost allocation and capital expenditure are not expected to cover the costs of the lease.

The self insured provision for medical negligence and product liability claims is affected by the estimate of future claims and the Trustees take advice from a third party actuary in determining the amount to be provided.

Details for these and other provisions are set out in note 23.

g) Funds
Unrestricted general funds are expendable at the discretion of the Trustees in furtherance of the objects of the Charity. The liability for post retirement defined benefits is reported separately in the post retirement reserve.

Restricted funds are subject to specific conditions imposed by the donors, and are within the objects of the Charity. These funds are transferred to unrestricted when the specific requirements of the donation are satisfied.

Permanent endowments are capital funds where the Trustees have no power to convert the capital into income. Only the income may be expended.

Accounting policies continued
for the year ended 31 December 2017

h) Income and turnover
Income from charitable activities comprises the value of services and goods supplied by the Group after deducting discounts and excluding value added tax. These are:

i) income from the hospital and wellbeing's clinical activities that are recognised when the treatment or good is provided
ii) wellbeing membership income that is recognised evenly over the membership period. Joining fees, which are non-refundable, are recognised when received. Secondary income, including those from food and beverages and personal training, are recognised when delivered
iii) income from management contracts for wellbeing services to employees, which are accounted on an accruals basis over the period that the service and price are agreed.

Turnover is income from charitable and other trading activities plus donations and legacies.

Donations are accounted for when receipt is probable, there is evidence of entitlement and it can be measured reliably. Legacies are included in the financial statements when it is probable that the legacy will be received and the value can be reliably estimated.

Interest income is recognised on a time basis taking into consideration the principal outstanding and contractual interest rates.

i) Expenditure
Expenditure is classified using the headings in Charities SORP (FRS 102). The direct costs of providing services to patients and others are categorised as charitable activities. Support costs are the Group's central office costs and as such are indirect costs incurred in supporting the charitable activities. Governance costs comprise the expenditure associated with the strategic management of the Group and compliance with constitutional and statutory requirements. Where departments undertake support and governance activities, the costs are apportioned using an estimate of the time spent on each activity.

Interest payable, other than retirement benefit finance costs, is accrued using the effective interest method.

j) Exceptional items
Exceptional items are significant transactions either individually or in aggregate, of a similar type or event that have arisen outside the Group's ordinary trading activities. They are disclosed separately to improve the understanding the Group's underlying financial performance.

k) Termination benefits
Payments or other benefits arising from the termination of a person's employment are recognised as a liability and expensed when there is a detailed formal plan for the termination and there is no realistic possibility of the plan being withdrawn.

l) Financial derivatives
The Group enters into financial derivatives to manage its exposure to fluctuating interest rates but does not enter into speculative derivative contracts. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest payable over the period of the contracts.

Derivative contracts are initially measured at fair value on the date the contract is entered into and are subsequently measured at fair value through the consolidated income statement and the consolidated statement of financial activities. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The movement in the fair value of the interest rate derivatives is charged or credited to interest payable within the consolidated statement of financial activities and the consolidated income statement.

The fair value of the interest rate swaps is calculated using a valuation technique that takes into consideration observable interest rates for the period of the contracts.

m) Foreign currency
Group entities
Group entities and subsidiaries that have a different functional currency from the presentational currency are translated on consolidation into sterling as follows:

- assets and liabilities at the closing rate
- income and expenditure at the average exchange rate.

The exchange differences are recognised in the other recognised gains and losses section of the consolidated statement of financial activities and in other comprehensive income in the consolidated income statement.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange gains and losses resulting from the settlement of such transactions and from translation at the closing rate of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement and the consolidated statement of financial activities.

n) Intangible fixed assets

Goodwill

Goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses.

Positive goodwill is written off on a straight line basis over its expected useful life, of between five and 20 years. If there is an indication that there is a significant change in amortisation rate, the amortisation is revised prospectively to reflect the new expectations.

A change in the value of contingent purchase consideration is recognised immediately as an adjustment to goodwill and written off on a straight line basis over its expected useful life from the date of the original purchase.

The Charity's goodwill includes the value of investments in certain subsidiaries in which the trade and assets have been transferred to the Charity.

Computer software

Computer software that is not an integral part of its related hardware is treated as an intangible fixed asset and is recognised only when it is probable that future benefits will flow to the Group and the cost can be measured reliably.

It is measured at cost less accumulated amortisation and any impairment losses. Cost includes internal project development costs.

Software development costs are recognised as an intangible asset when all the following conditions are met:

i) it is technically and financially feasible to complete the development
ii) the intention is to complete the development and use the software
iii) it can be used when completed
iv) the costs can be measured reliably
v) it is probable there will be future economic benefits to the Group.

Computer software is amortised over five years.

o) Tangible fixed assets and depreciation

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes that of dismantling and removing the item and restoring the site on which it is located provided there is an obligation at the year end, it is probable that there is an obligation and it can be measured reliably.

The cost of new buildings, major extensions and refurbishments includes internal project development costs and interest incurred on borrowings to finance the development. All other development costs are written off in the year of expenditure.

Capitalised interest is calculated by applying a weighted average interest rate to the cost of new hospitals, major extensions and refurbishments in progress during the year.

Tangible fixed assets are transferred from assets in the course of construction at practical completion of the project.

No depreciation is charged while assets are in the course of construction; depreciation on assets in the course of construction commences at practical completion.

Depreciation on the other tangible fixed assets, other than freehold land which is not depreciated, is calculated on a straight line basis to write down the cost over their expected useful economic lives. The applicable periods are:

Freehold buildings	Between 50 and 60 years or the remaining useful life if less than 50 years
Leasehold properties	Over the period of the lease or remaining useful life
Furniture and equipment	Between 3 and 15 years
Motor vehicles	Between 4 and 5 years

p) Impairment of intangible and tangible fixed assets

At each reporting date, intangible and tangible fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of a possible impairment, the recoverable amount of the affected income generating unit or asset is estimated and compared with its carrying amount. An impairment loss is expensed immediately.

Impairments of tangible fixed assets and intangible fixed assets other than goodwill are reversed when a change in economic conditions or the expected use of an asset increases the recoverable amount of an impaired asset above its impaired carrying value. Impairment reversals are recognised in the consolidated income statement and consolidated statement of financial activities to the extent that they increase the carrying amount of the asset up to the amount that it would have been had the original impairment not occurred.

Accounting policies continued
for the year ended 31 December 2017

q) Purchase and disposal of properties
The purchase or disposal of a property is accounted for in the year in which an unconditional and irrevocable contract is exchanged.

r) Investments
Investments in subsidiaries are stated at cost, less provision for impairment within the Charity's financial statements.

Other investments are stated at market value at the balance sheet date. Changes in market values are accounted for as net gains/ (losses) on investments within the consolidated statement of financial activities and as other comprehensive income in the consolidated income statement.

Most of the trade and assets of Health Club Investments Group Limited, Nuffield Proactive Health Group Limited and their subsidiaries were transferred to the Charity in prior years.

As a result of the hive-up, the carrying values of the investments in the subsidiaries were not supported by their net assets. However, the Charity did not suffer a loss in respect of these transactions. Accordingly, the investment not represented by the subsidiary's underlying assets has been treated as goodwill and will be amortised over their estimated useful lives of between six and 20 years.

s) Stocks
Stocks are stated at the lower of net realisable value and cost, where cost is weighted average cost.

Consignment stock is not included in the balance sheet when the supplier retains the risk and reward of ownership. The risk and reward transfers to the Group when the asset is used or as the result of a contractual agreement.

t) Provisions for liabilities
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions are measured at the Trustees' best estimate of the expenditure required to settle the obligation at the balance sheet date. If such an obligation is not capable of being estimated reliably, no provision is recognised and the item is disclosed as a contingent liability where material.

Where the effect is material, the provision is determined by discounting the expected future cash flows and the unwinding of the discount is recognised as an interest cost in the consolidated income statement and consolidated statement of financial activities.

u) Defined benefit pension schemes and other post retirement benefits
Scheme assets are measured at fair values. Scheme liabilities are measured annually on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates of equivalent currency and term of the scheme liabilities. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost and costs from settlements and curtailments are charged against operating surplus.

The net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate as determined at the start of the reporting period and taking account of any changes in the net defined benefit liability during the period as a result of contributions and benefit payment. The discount rate is based on the yield curve of high quality corporate bonds.

Actuarial gains and losses and returns on plan assets, excluding amounts included in net interest on the net defined benefit liability, are reported as recognised gains and losses in the consolidated statement of financial activities.

v) Defined contribution pension schemes
Contributions to defined contribution schemes are charged to the consolidated income statement and consolidated statement of financial activities in the period in which they become payable.

w) Leased assets
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are recognised initially at the lower of the fair value of the asset or the present value of the minimum payments at the inception of the contract. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the reduction in lease obligation and interest using the effective interest method so as to achieve a constant rate of interest on the remaining portion of the lease obligation.

The assets held under finance leases and hire purchase agreements are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals paid under operating leases are charged to the consolidated income statement and the consolidated statement of financial activities on a straight line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation or adjusted to the open market value, in which case the Group rent expense equals the amounts owed to the lessor.

The benefits of lease incentives are recognised as a reduction to the rental expense over the lease term on a straight line basis.

Rentals receivable from operating leases are accounted for on a straight line basis over the lease term.

x) Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade creditors or debtors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for evidence of impairment. An impairment loss is recognised in the consolidated income statement and consolidated statement of financial activities.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

The financial liability arising from the asset backed funding agreement with the pension fund is stated at its fair value. A valuation technique is used as there is no readily ascertainable market price. The valuation method incorporates a risk free discount rate to reflect the timing of the payments, an option pricing element to value the contingent payments and solvency likelihood to take into consideration the different payment scenarios. Any gains or losses arising on remeasurement are recognised in the Charity's income statement and the Charity's statement of financial activities.

Notes to the financial statements
for the year ended 31 December 2017

1. Fund analysis

Group	Permanent £m	Restricted £m	Unrestricted £m	2017 Total £m	Permanent £m	Restricted £m	Unrestricted £m	2016 Total £m
Total income								
Donations, gifts and legacies	–	–	–	–	–	–	0.1	0.1
Other sources of income	–	–	**909.5**	**909.5**	–	–	839.5	839.5
Total income	–	–	**909.5**	**909.5**	–	–	839.6	839.6
Total expenditure	–	–	**(933.3)**	**(933.3)**	–	–	(837.0)	(837.0)
Net (expenditure)/ income	–	–	**(23.8)**	**(23.8)**	–	–	2.6	2.6
Other recognised gains and losses	–	–	**26.0**	**26.0**	–	–	(42.5)	(42.5)
Net movement in funds	–	–	**2.2**	**2.2**	–	–	(39.9)	(39.9)
Fund balance at 1 January	**0.1**	**0.8**	**61.1**	**62.0**	0.1	0.8	101.0	101.9
Fund balance at 31 December	**0.1**	**0.8**	**63.3**	**64.2**	0.1	0.8	61.1	62.0

Charity	Permanent £m	Restricted £m	Unrestricted £m	2017 Total £m	Permanent £m	Restricted £m	Unrestricted £m	2016 Total £m
Total income								
Donations, gifts and legacies	–	–	–	–	–	–	0.1	0.1
Other sources of income	–	–	**906.9**	**906.9**	–	–	838.5	838.5
Total income	–	–	**906.9**	**906.9**	–	–	838.6	838.6
Total expenditure	–	–	**(931.0)**	**(931.0)**	–	–	(836.5)	(836.5)
Net (expenditure)/ income	–	–	**(24.1)**	**(24.1)**	–	–	2.1	2.1
Other recognised gains and losses	–	–	**26.0**	**26.0**	–	–	(42.5)	(42.5)
Net movement in funds	–	–	**1.9**	**1.9**	–	–	(40.4)	(40.4)
Fund balance at 1 January	**0.1**	**0.8**	**59.8**	**60.7**	0.1	0.8	100.2	101.1
Fund balance at 31 December	**0.1**	**0.8**	**61.7**	**62.6**	0.1	0.8	59.8	60.7

2. Turnover and income analysis

Group	2017 £m	2016 £m
Income from charitable activities		
Hospital services	**561.3**	550.2
Wellbeing services	**356.0**	298.7
Inter-divisional sales	**(11.6)**	(12.2)
Net income from charitable activities	**905.7**	836.7
Donations	**–**	0.1
Other trading income	**3.4**	2.7
Turnover	**909.1**	839.5
Income from investments	**0.4**	0.1
Total income	**909.5**	839.6

Charity	2017 £m	2016 £m
Income from charitable activities		
Hospital services	**561.3**	550.2
Wellbeing services	**356.0**	298.7
Inter-divisional sales	**(11.6)**	(12.2)
Net income from charitable activities	**905.7**	836.7
Donations	**–**	0.1
Other trading income	**–**	–
Turnover	**905.7**	836.8
Income from investments	**1.2**	1.8
Total income	**906.9**	838.6

Other trading income comprises beauty sales and other non-charitable activities provided by the Wellbeing division.

Notes to the financial statements continued
for the year ended 31 December 2017

3. Expenditure on charitable activities

	Direct activities		Support costs		Total	
Group	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Continuing activities						
Normal						
Staff and related costs	**305.1**	272.5	**41.7**	44.6	**346.8**	317.1
Third party fees	**131.8**	126.6	**–**	–	**131.8**	126.6
Supply costs	**116.2**	119.9	**–**	–	**116.2**	119.9
Depreciation and amortisation	**68.4**	58.0	**11.7**	10.5	**80.1**	68.5
Other costs	**167.1**	145.9	**49.5**	38.1	**216.6**	184.0
	788.6	722.9	**102.9**	93.2	**891.5**	816.1
Support costs allocated to direct activities	**68.0**	59.9	**(68.0)**	(59.9)	**–**	–
After recharge	**856.6**	782.8	**34.9**	33.3	**891.5**	816.1
Exceptional						
Reorganisation and transformation costs	**–**	–	**5.0**	–	**5.0**	–
Impairment of fixed assets	**5.0**	–	**–**	–	**5.0**	–
Onerous lease provision	**6.3**	–	**–**	–	**6.3**	–
Other costs	**–**	–	**3.6**	–	**3.6**	–
Pension scheme restructuring	**–**	–	**–**	1.0	**–**	1.0
Total exceptional	**11.3**	–	**8.6**	1.0	**19.9**	1.0
Expenditure on charitable activities	**867.9**	782.8	**43.5**	34.3	**911.4**	817.1

The support costs transferred to direct activities are divisional office and support centre costs that are incurred in delivering or managing the delivery of services.

Charity	Direct activities 2017 £m	Direct activities 2016 £m	Support costs 2017 £m	Support costs 2016 £m	Total 2017 £m	Total 2016 £m
Continuing activities						
Normal						
Staff and related costs	**303.5**	271.3	**41.7**	44.6	**345.2**	315.9
Third party fees	**131.8**	126.6	**–**	–	**131.8**	126.6
Supply costs	**115.6**	119.6	**–**	–	**115.6**	119.6
Depreciation and amortisation	**68.4**	58.0	**11.7**	10.6	**80.1**	68.6
Other costs	**169.7**	145.8	**49.3**	38.1	**219.0**	183.9
	789.0	721.3	**102.7**	93.3	**891.7**	814.6
Support costs allocated to direct activities	**67.8**	59.9	**(67.8)**	(59.9)	**–**	–
After recharge	**856.8**	781.2	**34.9**	33.4	**891.7**	814.6
Exceptional						
Reorganisation and transformation costs	**–**	–	**5.0**	–	**5.0**	–
Impairment of fixed assets	**5.0**	–	**–**	–	**5.0**	–
Onerous lease provision	**6.3**	–	**–**	–	**6.3**	–
Other costs	**–**	–	**3.6**	–	**3.6**	–
Pension scheme restructuring	**–**	–	**–**	1.0	**–**	1.0
Total exceptional	**11.3**	–	**8.6**	1.0	**19.9**	1.0
Expenditure on charitable activities	**868.1**	781.2	**43.5**	34.4	**911.6**	815.6

The support costs transferred to direct activities are divisional office and support centre costs that are incurred in delivering or managing the delivery of services.

4. Governance costs

	2017 £m	2016 £m
Staff and related costs	**2.0**	1.7
Other costs	**1.3**	1.3
	3.3	3.0

Governance costs are included within support costs in note 3.

Notes to the financial statements continued
for the year ended 31 December 2017

5. Exceptional items

The total exceptional items charge of £19.9 million (2016 – £1.0 million) is analysed and categorised in the Income Statement as follows:

Group and Charity	2017 £m	2016 £m
Cost of services		
Impairment of tangible fixed assets	**5.0**	–
Onerous lease provision	**6.3**	–
	11.3	–
Support costs		
Reorganisation and transformation costs	**5.0**	–
Aborted project spend	**1.7**	–
Other	**1.9**	–
Pension scheme restructuring	**–**	1.0
	8.6	1.0
Total exceptional items	**19.9**	1.0

Impairment of tangible assets

During the year, the business changed its methodology for assessing the risk of impairment at its consumer sites recognising individual sites as the relevant cash generating units (CGU) for the purposes of testing, rather than the collective consumer business as a single CGU. This approach resulted in a total impairment charge of £5.0 million across a number of sites.

Onerous lease provisioning

During the year, the business revised its methodology for assessing the requirement to provide for any onerous leases on its consumer sites. This identified a number of loss-making sites where the forecasted net cash inflows were not sufficient to cover the minimum lease commitment. A provision of £6.3 million, determined by the lower of net costs to fulfil the lease or to exit the lease, was recorded.

Reorganisation and transformation costs

In 2017, the business completed a significant review of its operating model and organisational structure to better align to its strategic direction. This included (1) the introduction of a regional operating structure and simplified management structure with clearer points of accountability; (2) creation of a new shared service centre to absorb activities from an existing site that was subsequently closed, and to facilitate centralisation of further previously devolved activities; and (3) development of an Enterprise Resource Planning system to replace and update ageing finance and HR systems and processes. The total costs associated with these projects were £5.0 million.

Aborted project spend

During the year the business incurred significant costs assessing an acquisition target only to discontinue the process after lengthy due-diligence. The costs associated with the work undertaken were £1.7 million.

Other

In the year, the business identified potential contractual liabilities on certain legacy contracts. There are amounts that may become due on these contracts and so a provision of £1.9 million has been recorded.

Pension scheme restructuring

The pension scheme restructuring costs in 2016 relate to legal fees incurred during the transfer of the freehold of the Nuffield Health Oxford Hospital (The Manor) to the Nuffield Health pension scheme. There was no impact in the Group accounts, however the transfer reduces the pension deficit in the Charity accounts and provides security to the Pension Scheme in the unlikely event of default in the business making future funding requirements. Further detail is provided in note 8.

6. Operating (deficit)/surplus

This is stated after charging or crediting:

	2017 £m	2016 £m
Amounts payable to auditor:		
Audit fees payable	**0.3**	0.3
Fees payable for other services	**0.3**	–
Depreciation on tangible fixed assets:		
On owned assets	**55.0**	52.9
On assets held under finance leases and hire purchase contracts	**1.9**	1.8
Exceptional impairment of tangible fixed assets (note 5)	**5.0**	–
(Gain)/loss on disposal of tangible fixed assets	**(0.7)**	0.6
Amortisation of intangible fixed assets (note 13)	**23.2**	13.1
Hire of plant and machinery (including operating lease charges)	**5.2**	5.0
Property operating lease rentals	**59.9**	45.7
Rental income from operating leases	**(0.8)**	(0.7)
Third party indemnity insurance	**1.2**	1.1
Exceptional onerous lease provision (note 5)	**6.3**	–

Other

Indemnity insurance for the Trustees and officers amounted to £32,000 (2016 – £30,000).

Fees payable by the Charity for the audit of the Charity's annual accounts in 2017 amounted to £275,000. Fees payable for other services amounted to £263,000 mainly relating to tax compliance services. Fees paid to Deloitte LLP for non-audit services to the charitable company itself are not disclosed in the individual accounts of Nuffield Health because the charitable company's consolidated accounts are required to disclose such fees on a consolidated basis.

In the prior year, Grant Thornton LLP were the auditors and received fees of £324,000 for the audit of the Charity's annual accounts and £11,000 for other services.

Notes to the financial statements continued
for the year ended 31 December 2017

7. Net interest payable and similar income

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Interest receivable	**0.4**	0.1	**0.1**	0.7
Interest payable				
Bank loans and overdraft	**(7.9)**	(5.3)	**(7.8)**	(5.4)
Senior secured loan notes	**(5.4)**	(5.4)	**(5.4)**	(5.4)
Stakeholder bond	**(1.3)**	(1.1)	**(1.3)**	(1.1)
Finance charges in respect of finance leases	**(0.2)**	(0.2)	**(0.2)**	(0.2)
Finance charges in respect of pension liability for asset backed funding	**–**	–	**(3.1)**	(2.1)
Total interest payable	**(14.8)**	(12.0)	**(17.8)**	(14.2)
Costs in connection with loan facilities	**(1.0)**	(1.3)	**(1.0)**	(1.3)
Costs in connection with the stakeholder bond	**(0.2)**	(0.2)	**(0.2)**	(0.2)
	(16.0)	(13.5)	**(19.0)**	(15.7)
Retirement benefit finance costs	**(3.2)**	(3.0)	**(0.1)**	(3.4)
	(19.2)	(16.5)	**(19.1)**	(19.1)
Movement in fair value of derivatives				
Opening fair value of interest rate derivative	**1.7**	1.0	**1.7**	1.0
Closing fair value of interest rate derivative	**(0.9)**	(1.7)	**(0.9)**	(1.7)
	0.8	(0.7)	**0.8**	(0.7)
Interest payable and movement in fair values	**(18.4)**	(17.2)	**(18.3)**	(19.8)
Net interest payable and similar income	**(18.0)**	(17.1)	**(18.2)**	(19.1)

8. Defined benefit pensions and other post retirement benefits

The Group's funded defined benefit pension scheme is closed to future contributions. In the prior year, the Group operated one unfunded defined benefit pension scheme. The assets of the funded scheme are administered by trustees in funds independent from the assets of the Group. The Group also provides post retirement healthcare benefits to some of its employees. These benefit schemes are also closed to new entrants.

Nuffield Health is the sponsoring employer of the defined benefit pension schemes and the post retirement healthcare benefits and has legal responsibility for the plans. There is no contractual arrangement or policy for charging the net defined benefit costs to individual Group entities and therefore the Charity has recognised the entire net benefit cost and the relevant net defined benefit liability in its individual financial statements.

The most recent formal actuarial valuation of the Nuffield Health Pension and Life Assurance Scheme (the Scheme), a defined benefit pension scheme, was carried out as at 31 March 2015. This valuation was carried out by the Scheme actuary, Adam Stanley of Punter Southall Limited. The principal assumptions made by the actuary are set out in the Scheme's statement of funding principles, which were agreed by the Trustees of the Scheme and Nuffield Health as part of the 31 March 2015 valuation.

At the date of the above full valuation, the value of the Scheme's assets was sufficient to cover 71 per cent of the actuarial value of the benefits that had accrued to the members after allowing for assumed future increases to deferred pensions and pensions currently in payment.

The level of employer contributions in the year totalled £3.1 million (2016 – £5.3 million).

The employer and the Trustees of the Scheme entered into an asset backed funding arrangement in March 2016 by which the freehold of the Nuffield Health Oxford Hospital (The Manor) was transferred to a Scottish Limited Partnership, with both parties being limited partners. This gives the Scheme a secured asset should the Charity become insolvent. As a part of this arrangement, it is agreed the employer's contribution from 1 April 2016 for the next six years will be £2.0 million per year and £4.0 million thereafter plus administration costs that are estimated to be £0.7 million. It was projected at the time of the full valuation to recover the deficit over 17 years. The pension deficit has increased since that date, largely due to reductions in the discount rate, which may lengthen the recovery period.

The projected unit credit method is used to value the liabilities of the defined benefit pension scheme. Scheme assets are stated at their market values at the respective balance sheet dates.

The main assumptions are:

	2017 % pa	2016 % pa
Rate of increase in medical inflation	**4.2**	4.3
Rate of increase for pensions in payment pre 1 August 2005 service	**3.4**	3.5
Rate of increase for pensions in payment post 31 July 2005 service	**2.1**	2.3
Rate of increase for deferred pensions	**2.2**	2.3
Discount rate (yield curve basis)	**2.6**	2.7
Inflation rate (CPI)	**2.2**	2.3

The post retirement mortality assumptions used to value the benefit obligation mortality tables are based on S2PA at 31 December 2017 and 31 December 2016. Assumed life expectancies on retirement at age 65 are:

		2017 Years	2016 Years
Retiring today	Males	**22.3**	22.8
	Females	**24.1**	24.7
Retiring in 20 years' time	Males	**24.0**	24.9
	Females	**25.7**	26.6

The returns on the plan assets are:

	2017 % pa	2016 % pa
Growth assets	**6.0%**	13.9%
Matching assets including hedge liability	**3.6%**	43.0%

Notes to the financial statements continued
for the year ended 31 December 2017

8. Defined benefit pensions and other post retirement benefits – continued

The amounts charged to the consolidated income statement and Group statement of financial activities were:

	Defined benefit pension funds		Retirement healthcare		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Operating surplus						
Service cost						
Administrative costs	**0.7**	1.0	**–**	–	**0.7**	1.0
Current service and settlement costs	**–**	–	**–**	–	**–**	–
	0.7	1.0	**–**	–	**0.7**	1.0
Net interest payable/(receivable):						
Interest on schemes' assets	**(9.8)**	(12.1)	**–**	–	**(9.8)**	(12.1)
Interest on schemes' liabilities	**12.9**	14.9	**0.1**	0.2	**13.0**	15.1
Total charged to finance expenses	**3.1**	2.8	**0.1**	0.2	**3.2**	3.0
Total charged to net income	**3.8**	3.8	**0.1**	0.2	**3.9**	4.0

The total Group actuarial gains/(losses) on defined benefit retirement schemes and retirement healthcare are as follows:

	2017 £m	2016 £m
Actual return on schemes' assets	**20.6**	69.4
Less interest on schemes' assets	**(9.8)**	(12.1)
	10.8	57.3
On obligations – interest costs	**15.2**	(99.8)
Net actuarial gains/(losses) on defined benefit retirement schemes	**26.0**	(42.5)

The amounts recognised in the Group balance sheet are as follows:

	Defined benefit pension funds		Retirement healthcare		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Growth assets	**260.8**	256.2	**–**	–	**260.8**	256.2
Matching assets including liability hedge	**119.1**	116.2	**–**	–	**119.1**	116.2
Other assets	**5.0**	4.7	**–**	–	**5.0**	4.7
	384.9	377.1	**–**	–	**384.9**	377.1
Present value of funded obligations	**(474.1)**	(491.2)	**–**	–	**(474.1)**	(491.2)
	(89.2)	(114.1)	**–**	–	**(89.2)**	(114.1)
Present value of unfunded obligations	**(2.8)**	(2.9)	**(4.1)**	(4.3)	**(6.9)**	(7.2)
Net liabilities	**(92.0)**	(117.0)	**(4.1)**	(4.3)	**(96.1)**	(121.3)

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension funds		Retirement healthcare		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Opening defined benefit obligations	**(494.1)**	(393.2)	**(4.3)**	(4.4)	**(498.4)**	(397.6)
Benefits paid	**15.0**	13.9	**0.3**	0.2	**15.3**	14.1
Interest cost	**(12.9)**	(14.9)	**(0.1)**	(0.2)	**(13.0)**	(15.1)
Actuarial (losses)/gains	**15.1**	(99.9)	**0.1**	0.1	**15.2**	(99.8)
Closing defined benefit obligations	**(476.9)**	(494.1)	**(4.0)**	(4.3)	**(480.9)**	(498.4)

The cumulative actuarial losses recognised in the statement of financial activities at 31 December 2017 were £144.9 million (2016 – £160.1 million).

Notes to the financial statements continued
for the year ended 31 December 2017

8. Defined benefit pensions and other post retirement benefits – continued

Changes in the fair value of the post retirement funds' assets are as follows:

	Defined benefit pension funds		Retirement healthcare		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Opening fair value of plan assets	**377.1**	317.3	**–**	–	**377.1**	317.3
Interest income	**9.8**	12.1	**–**	–	**9.8**	12.1
Actuarial gains	**10.8**	57.3	**–**	–	**10.8**	57.3
Contributions paid	**2.8**	5.3	**0.3**	0.2	**3.1**	5.5
Scheme administrative costs	**(0.7)**	(1.0)	**–**	–	**(0.7)**	(1.0)
Benefits paid	**(15.0)**	(13.9)	**(0.3)**	(0.2)	**(15.3)**	(14.1)
Closing fair value of plan assets	**384.8**	377.1	**–**	–	**384.8**	377.1

Charity

The Charity and Nuffield Health Pension and Life Assurance Scheme (the Scheme) entered into an asset backed funding arrangement in 2016 by which the Nuffield Health Oxford Hospital (The Manor) was sold to and leased back from Nuffield Health Scottish Limited Partnership.

The arrangement results in the Charity having irrevocable cashflow obligations to the Scheme and the Scheme's assets increasing by the same amount. The cashflows are recorded at their fair value, which at the end of the financial year is £71.2 million (2016 – £76.7 million). As these obligations are due to other members of the Group, no liability has been recognised within the consolidated financial statements.

At the end of 2017, the Charity's net post-retirement defined benefit liability is £24.9 million (2016 – £44.6 million) and the pension liability for asset backed funding due within one year is £0.9 million (2016 – £0.8 million) and due after one year is £70.3 million (2016 – £75.9 million).

9. Defined contribution pension schemes

	2017 £m	2016 £m
Amounts charged to the income statement and statement of financial activities	**12.5**	10.2
Contributions owing to the pension schemes at 31 December	**1.8**	1.8

The number of employees in defined contribution pension schemes at year end was 10,771 (2016 – 10,690).

10. Trustees remuneration

The Trustees are the same as Directors under company law.

	2017 £	2016 £
Emoluments paid to the Trustees:		
Mr R S M Hardy	**61,000**	57,000
Mr M W Bryant	**38,000**	35,000
Mr P G McCracken	**38,000**	35,000
Ms F E Driscoll	**38,000**	35,000
Mrs J M Shaw	**63,000**	37,000
Dame D Holt	**31,000**	28,000
Mr D W Lister	**34,000**	29,000
Ms N MacDonald	**29,000**	–
Mr S Maslin	**17,000**	–
	349,000	256,000

The total value of money purchase pension contributions by the Trustees are £9,243 (2016 – £5,518). Travel and subsistence paid on behalf of or reimbursed to all the Trustees was £14,179 (2016 – £26,328) in the year.

During the year, Mrs J M Shaw has received payment in arrears for her role as Deputy Chair from the period April 2014 to December 2016.

11. Employees

	2017 Number	2017 FTE	2016 Number	2016 FTE
Average number of employees:				
Hospital	**7,617**	**5,185**	6,688	4,838
Wellbeing	**8,431**	**4,709**	6,857	3,882
Support	**150**	**142**	127	121
Total	**16,198**	**10,036**	13,672	8,841

The employees are classified into the categories where the related costs are finally charged.

The increase in average number of employees and FTE from 2016 is mainly due to the full year impact of the acquisition of 35 Wellbeing sites in August 2016.

Notes to the financial statements continued
for the year ended 31 December 2017

11. Employees – continued

	2017 £m	2016 £m
Staff costs during the year:		
Wages and salaries	**291.8**	261.1
Social security costs	**24.0**	23.0
Other pension costs		
Defined benefit scheme administrative costs (note 8)	**0.7**	1.0
Defined benefit current service and settlement costs (note 8)	**–**	–
Defined contribution (note 9)	**12.5**	10.2
Agency costs	**14.5**	16.5
	343.5	311.8

Termination benefits:

	Charged to consolidated statement of financial activities		Accrued at year end	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Individual redundancy and terminations	**0.7**	0.4	**–**	–
Associated with exceptional reorganisations	**4.3**	**–**	**–**	–
	5.0	0.4	**–**	–

The emoluments of the higher paid employees fell within the ranges indicated below. These emoluments include any bonuses payable, redundancy payments (note 5) and settlement agreement payments but exclude pension contributions.

	2017 Number	2016 Number
£60,000 to £69,999	**116**	110
£70,000 to £79,999	**71**	52
£80,000 to £89,999	**56**	34
£90,000 to £99,999	**22**	22
£100,000 to £109,999	**14**	14
£110,000 to £119,999	**15**	12
£120,000 to £129,999	**9**	17
£130,000 to £139,999	**7**	9
£140,000 to £149,999	**9**	7
£150,000 to £159,999	**3**	6
£160,000 to £169,999	**1**	6
£170,000 to £179,999	**4**	5
£180,000 to £189,999	**1**	3
£190,000 to £199,999	**1**	2
£200,000 to £209,999	**2**	3
£210,000 to £219,999	**1**	4
£220,000 to £229,999	**2**	1
£240,000 to £249,999	**–**	1
£250,000 to £259,999	**1**	3
£260,000 to £269,999	**1**	–
£280,000 to £289,999	**–**	1
£290,000 to £299,999	**2**	1
£300,000 to £309,999	**–**	1
£310,000 to £309,999	**1**	1
£330,000 to £339,000	**–**	1
£340,000 to £349,000	**–**	1
£350,000 to £359,000	**–**	1
£400,000 to £409,999	**1**	–
£450,000 to £459,999	**1**	1
£480,000 to £489,999	**–**	1
£510,000 to £519,999	**1**	–
£760,000 to £769,999	**–**	1

	£m	£m
Employer contributions towards defined contribution pension schemes for higher paid employees	**2.4**	2.7

	Number	Number
Number of higher paid employees to whom retirement benefits are accruing under the defined contribution pension scheme	**359**	350

The total emoluments and employee benefits for the Executive Managers, who are the key management personnel, in the year was £2.5 million (2016 – £2.9 million). The highest paid individual in 2017 (excluding termination pay) was the Chief Executive Officer, Steve Gray (2016: Steve Gray).

Notes to the financial statements continued
for the year ended 31 December 2017

12. Tax on (deficit)/surplus on ordinary activities

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Current tax				
United Kingdom corporation tax at 19% (2016 – 20%) by subsidiaries	**–**	–	**–**	–

The parent company is a charity and is not subject to tax because its charitable activities are exempt from tax.

The subsidiary companies have tax losses available to carry forward against future taxable profits or sufficient shareholder funds to gift aid taxable profits to the Charity. No deferred taxation asset has been recognised within the financial statements at 31 December 2017 in respect of these losses because they are unlikely to be recovered.

13. Intangible fixed assets

	Group				Charity			
	Goodwill £m	Assets in course of construction £m	Computer software £m	**Total £m**	Goodwill £m	Assets in course of construction £m	Computer software £m	**Total £m**
Cost								
At 1 January 2017 (note 26)	116.2	3.5	78.7	**198.4**	117.4	3.5	78.7	**199.6**
Additions	–	9.2	8.9	**18.1**	–	9.2	8.9	**18.1**
Disposals	–	–	(1.0)	**(1.0)**	–	–	(1.0)	**(1.0)**
At 31 December 2017	116.2	12.7	86.6	**215.5**	117.4	12.7	86.6	**216.7**
Amortisation								
At 1 January 2017	41.5	–	48.3	**89.8**	41.9	–	48.3	**90.2**
Charge for year	10.3	–	12.9	**23.2**	10.4	–	12.9	**23.3**
Disposals	–	–	(1.1)	**(1.1)**	–	–	(1.0)	**(1.0)**
At 31 December 2017	51.8	–	60.1	**111.9**	52.3	–	60.2	**112.5**
Net book value at 31 December 2017	64.4	12.7	26.5	**103.6**	65.1	12.7	26.4	**104.2**
Net book value at 31 December 2016	74.7	3.5	30.4	**108.6**	75.5	3.5	30.4	**109.4**

Goodwill is the difference between the cost of purchase and the fair value of the assets and liabilities attributed to the purchase.

Additions to computer software during the year included capitalised internal project development costs of £4.7 million (2016 – £2.2 million). The internal project development costs capitalised to date are £14.2 million (2016 – £9.5 million).

The annual impairment assessment has been performed on the goodwill (note 26) and no impairments have been identified.

14. Tangible fixed assets

Group	Assets in course of construction £m	Freeholds £m	Long leaseholds £m	Short leaseholds £m	Equipment and motor vehicles £m	**Total £m**
Cost						
At 1 January 2017	20.4	270.5	55.0	153.0	530.5	**1,029.4**
Additions at cost	5.9	3.0	1.5	4.6	55.5	**70.5**
Disposals	–	–	–	(0.1)	(14.0)	**(14.1)**
At 31 December 2017	26.3	273.5	56.5	157.5	572.0	**1,085.8**
Depreciation and impairment						
At 1 January 2017 (note 26)	–	93.4	13.3	50.0	346.8	**503.5**
Charge for year	–	5.4	1.9	9.1	40.5	**56.9**
Impairment charge (note 5)	–	–	–	–	5.0	**5.0**
Disposals	–	–	–	(0.1)	(13.5)	**(13.6)**
At 31 December 2017	–	98.8	15.2	59.0	378.8	**551.8**
Net book value at 31 December 2017	26.3	174.7	41.3	98.5	193.2	**534.0**
Net book value at 31 December 2016	20.4	177.1	41.7	103.0	183.7	**525.9**

The gross amount on which depreciation on freehold buildings is being provided is £250.9 million (2016 – £247.9 million).

The net book value of equipment and motor vehicles held under finance leases and similar hire purchase contracts is £9.9 million (2016 – £7.8 million).

Notes to the financial statements continued
for the year ended 31 December 2017

14. Tangible fixed assets – continued

Charity	Assets in course of construction £m	Freeholds £m	Long leaseholds £m	Short leaseholds £m	Equipment and motor vehicles £m	**Total £m**
Cost						
At 1 January 2017	20.4	259.1	55.0	159.3	529.7	**1,023.5**
Additions at cost	5.9	3.0	1.5	4.6	55.5	**70.5**
Disposals	–	–	–	(0.1)	(14.0)	**(14.1)**
At 31 December 2017	26.3	262.1	56.5	163.8	571.2	**1,079.9**
Depreciation						
At 1 January 2017 (note 26)	–	90.0	13.3	51.7	346.5	**501.5**
Charge for year	–	5.3	1.9	9.1	40.5	**56.8**
Impairment charge (note 5)	–	–	–	–	5.0	**5.0**
Disposals	–	–	–	(0.1)	(13.6)	**(13.7)**
At 31 December 2017	–	95.3	15.2	60.7	378.4	**549.6**
Net book value at 31 December 2017	26.3	166.8	41.3	103.1	192.8	**530.3**
Net book value at 31 December 2016	20.4	169.1	41.7	107.6	183.2	**522.0**

Group and Charity
Additions during the year included capitalised internal project development costs of £0.4 million (2016 – £0.4 million). The interest charges and internal project development costs capitalised to date are £10.5 million (2016 – £10.5 million) and £7.6 million (2016 – £7.2 million) respectively.

During the year, GVA Grimley LLP undertook a valuation of the estate for loan security purposes. The valuation dated 7 September 2016 was performed in accordance with the Royal Institute of Chartered Surveyors' Guidance Notes on the Valuation of Assets. The valuation of the hospitals was £1,177 million, giving a surplus of £811 million over the net book value at the date of valuation. Another valuation exercise will be completed during 2020.

An impairment review was carried out against Wellbeing assets using an updated methodology to that used in previous years. This gave rise to an impairment charge of £5.0 million which was recorded as an exceptional item in the income statement (note 5).

15. Fixed asset investments

Group	UK Listed investment £m	Unlisted investment £m	**Total £m**
Market value			
At 1 January and 31 December 2017	0.1	0.1	**0.2**

Charity	Subsidiary undertaking £m	UK Listed investment £m	Unlisted investment £m	**Total £m**
Cost or market value				
At 1 January 2017	39.7	0.1	0.1	**39.9**
Acquisitions	–	–	–	**–**
At 31 December 2017	39.7	0.1	0.1	**39.9**
Provision for impairment				
At 1 January 2017	(18.9)	–	–	**(18.9)**
Charge	(0.3)	–	–	**(0.3)**
At 31 December 2017	(19.2)	–	–	**(19.2)**
Net book value at 31 December 2017	20.5	0.1	0.1	**20.7**
Net book value at 31 December 2016	20.8	0.1	0.1	**21.0**

The Group's investments are held primarily to provide an investment return for the Charity.

The shares of a UK listed investment are valued at their market value at the balance sheet date. The unlisted investments are valued at the lower of cost or management's estimate of market value.

Notes to the financial statements continued
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15. Fixed asset investments – continued

Subsidiary undertakings

The subsidiary undertakings at 31 December 2017 are shown below.

Company name	Class of share capital held	Portion held by the parent company	Portion held by the other Group companies	Nature of business
Registered in England and Wales				
Archer Leisure Ltd	Ordinary	–	100%	Dormant
Ark Leisure Management Ltd	Ordinary	–	100%	Dormant
Bladerunner Ltd	Ordinary	100%	–	Dormant
Body and Mind Ltd	Ordinary	–	100%	Dormant
Cannons Adventures Ltd	Ordinary	–	100%	Dormant
Cannons Covent Garden Ltd	Ordinary	100%	–	Dormant
Cannons Group Ltd	Ordinary	–	100%	Subsidiary holding company
Cannons Health Clubs Ltd	Ordinary	–	100%	Dormant
Cannons Sports Clubs (UK) Ltd	Ordinary	100%	–	Dormant
Centre Court Tennis Ltd	Ordinary	–	100%	Dormant
Chichester Independent Hospital Ltd	Ordinary	100%	–	Dormant
Chichester (Leasing) Company Ltd	Ordinary	–	100%	Dormant
Corby Tennis Ltd	Ordinary	–	100%	Dormant
Greens Health & Fitness Ltd	Ordinary	100%	–	Dormant
Health Club Investments Group Ltd	Ordinary	100%	–	Subsidiary holding company
Health Club Investments Ltd	Ordinary	–	100%	Dormant
Health Club Acquisitions Ltd	Ordinary	–	100%	Dormant
Healthscore Ltd	Ordinary	100%	–	Software developer
ISC Estates Ltd	Ordinary	–	100%	Dormant
ISC Leasing (Ipswich) Ltd	Ordinary	–	100%	Dormant
ISC Projects Ltd	Ordinary	–	100%	Property company
Independent Surgery Centres Ltd	Ordinary	100%	–	Subsidiary holding company
Jonathan Webb Ltd	Ordinary	100%	–	Dormant
MSCP Holdings Ltd	Ordinary	100%	–	Subsidiary holding company
MSCP Wellbeing Ltd	Ordinary	–	100%	Dormant
Mythbreaker Ltd	Ordinary	100%	–	Subsidiary holding company
Nuffield Cosmetics Surgery Ltd	Ordinary	100%	–	Dormant
Nuffield Health Care Ltd	Ordinary	100%	–	Dormant
Nuffield Health Day Nurseries Ltd	Ordinary	100%	–	Dormant
Nuffield Health Pension Trustees Ltd	Ordinary	100%	–	Pension Trustee Company
Nuffield Health Wellbeing Ltd	Ordinary	–	100%	Consumer fitness centres
Nuffield Nursing Homes Trust	Ordinary	100%	–	Dormant
Nuffield Proactive Health Ltd	Ordinary	–	100%	Dormant
Nuffield Proactive Health Group Ltd	Ordinary	100%	–	Dormant

Company name	Class of share capital held	Portion held by the parent company	Portion held by the other Group companies	Nature of business
Nuffield Proactive Health Medical Ltd	Ordinary	–	100%	Dormant
Pinnacle Leisure Group Ltd	Ordinary	–	100%	Dormant
Precis (1748) Ltd	Ordinary	–	100%	Dormant
Sherburne (Leasing) Company Ltd	Ordinary	–	100%	Dormant
The Food Calculator Ltd	Ordinary	–	100%	Dormant
Twickenham Leisure Ltd	Ordinary	100%	–	Dormant
Vale Health Partners Ltd	Ordinary	100%	–	Dormant
Vale Healthcare Ltd	Ordinary	22%	78%	Dormant
Vardon Ltd	Ordinary	–	100%	Dormant
Wandsworth Leisure Ltd	Ordinary	100%	–	Dormant
Registered in Scotland				
Nuffield Health (General Partner) Ltd	Ordinary	100%	–	Managing Partner of NHSLP
Nuffield Health Scottish Ltd Partnership	Ordinary	15%	85%	Property Company

The freehold for Nuffield Health Oxford Hospital (the Manor) was sold to Nuffield Health Scottish Limited Partnership in March 2016 for £91.2 million (see note 8 for further information). None of the other subsidiaries have a material impact on the Group's assets, liabilities and funds at the end of the year or on the Group statement of financial activities.

All subsidiary undertakings are registered in the UK and their registered office is Epsom Gateway, Ashley Avenue, Epsom, Surrey KT18 5AL except for the two subsidiaries registered in Scotland. These subsidiaries have their registered office at Saltire Court, 20 Castle Terrace, Edinburgh, United Kingdom EH1 2EN.

16. Joint venture

VitalityHealth is a joint venture in which Nuffield Health has joint control and a 50% ownership interest. This business was incorporated on 28 June 2017. It is principally engaged in developing a technology driven health and wellbeing solution for the corporate market. VitalityHealth is not publicly listed. The costs incurred in 2017 were initial operational setup costs, totalling £175,000.

VitalityHealth is structured as a separate entity and the Group has a residual interest in the net assets of VitalityHealth. Accordingly, the Group has classified its interest as a joint venture. In accordance with the agreement under which VitalityHealth is established, the Group and the other investor in the joint venture have agreed to make an initial share subscription of £50,000. This commitment has not been recognised in these consolidated financial statements.

Notes to the financial statements continued
for the year ended 31 December 2017

17. Stock

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Raw materials and consumables	**9.3**	8.7	**9.2**	8.7
Consignment stock not included in the balance sheet	**16.8**	15.4	**16.8**	15.4

There were no significant differences between the replacement cost and the values disclosed above.

Consignment stock not included in the balance sheet is stock owned by a supplier that is stored in our premises, which will be charged to the Group if drawn on or when the Group takes contractual liability for the stock.

The value of stock recognised as an expense during the year was £113.0 million (2016 – £116.4 million).

18. Debtors falling due within one year

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Trade debtors	**52.6**	57.1	**52.2**	57.1
Amount owed by Group undertakings	**–**	–	**2.7**	1.9
Other debtors	**3.2**	3.1	**3.3**	3.1
Prepayments and accrued income	**31.2**	36.3	**30.7**	35.9
	87.0	96.5	**88.9**	98.0

Interest is charged on loans to Group undertakings at various rates of interest between 2.0 and 2.5 per cent above the base rate. The loans are repayable on demand and are unsecured.

19. Creditors: amounts falling due within one year

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Obligations under finance leases	**2.0**	1.9	**2.0**	1.9
Trade creditors	**43.8**	45.1	**43.6**	44.4
Amounts owed to Group undertakings	**–**	–	**21.4**	21.1
Stakeholder bond	**18.7**	–	**18.7**	–
Social security and other taxes	**8.8**	8.4	**8.7**	8.4
Other creditors	**17.8**	26.5	**17.8**	25.5
Pension contributions	**1.8**	1.8	**1.8**	1.8
Pension liability for asset backed funding (note 8)	**–**	–	**0.9**	0.8
Accruals and deferred income	**74.6**	77.1	**74.8**	78.2
	167.5	160.8	**189.7**	182.1

20. Creditors: amounts falling due after more than one year

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Bank loans	**265.0**	244.0	**265.0**	244.0
Deferred expenses in connection with bank loans	**(2.0)**	(2.8)	**(2.0)**	(2.8)
Fair value of interest rate derivatives	**0.9**	1.8	**0.9**	1.8
	263.9	243.0	**263.9**	243.0
Stakeholder bond	**–**	18.7	**–**	18.7
Deferred expenses in connection with bond	**(0.1)**	(0.2)	**(0.1)**	(0.2)
	(0.1)	18.5	**(0.1)**	18.5
Secured loan notes	**100.0**	100.0	**100.0**	100.0
Obligations under finance leases	**6.5**	4.3	**6.5**	4.3
Pension liability for asset backed funding (note 8)	**–**	–	**70.3**	75.9
Other creditors	**3.5**	3.7	**3.5**	3.7
	373.8	369.5	**444.1**	445.4

Pension liability for asset backed funding

	Charity					
	2017 Risk free discount rate %	**2017 Forecast payments £m**	**2017 Fair value of liability £m**	2016 Risk free discount rate %	2016 Forecast payments £m	2016 Fair value of liability £m
Amounts falling due within one year	**0.7%**	**2.0**	**0.9**	0.6%	2.0	0.8
Amounts falling due after one year	**0.8% to 1.5%**	**89.6**	**70.3**	0.6% to 1.5%	102.0	75.9
		91.6	**71.2**		104.0	76.7
Gain/(Loss) on change in fair value assumptions			**1.1**			(0.4)

Notes to the financial statements continued
for the year ended 31 December 2017

21. Borrowings

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Borrowings are repayable as follows:				
One year or less:				
Finance leases	**2.0**	1.9	**2.0**	1.9
Stakeholder bond	**18.7**	–	**18.7**	–
In more than one but not more than two years:				
Finance leases	**2.6**	1.1	**2.6**	1.1
In more than two but not more than five years:				
Finance leases	**3.9**	3.2	**3.9**	3.2
Stakeholder bond	**–**	18.7	**–**	18.7
Bank loans	**265.0**	244.0	**265.0**	244.0
In more than five years:				
Secured loan notes	**100.0**	100.0	**100.0**	100.0
	392.2	368.9	**392.2**	368.9

The bank loans, overdraft and secured loan notes are secured by a fixed charge on some of the freehold properties of the Group and a floating charge on all the assets of the Charity. The terms of the bank loans, secured loan notes and stakeholder bond are shown below:

Description	Security	Interest rate	Repayment date
Bank loans and overdraft	Secured	Variable 2.15% + LIBOR	4 October 2021
Secured loan note £55 million	Secured	Fixed 5.26%	4 October 2024
Secured loan note £45 million	Secured	Fixed 5.55%	4 October 2026
Stakeholder bond	Unsecured	Fixed 6.00%	2 July 2018

The finance leases are secured on the related assets. The other loans are unsecured and the rates of interest are based on LIBOR.

22. Financial derivatives

The financial derivatives in place are:

	Maturity	Fixed rate %	Principal £m
In Charity and Group			
At 1 January 2017			
Interest rate swap – floating to fixed rate	2017	1.4%	50
Interest rate swap – floating to fixed rate	2021	2.4%	25
Interest rate swap – floating to fixed rate	2021	0.6%	50
At 31 December 2017			
Interest rate swap – floating to fixed rate	2021	2.4%	25
Interest rate swap – floating to fixed rate	2021	0.6%	25

The Charity uses financial derivatives to manage the interest rate exposure on its current and expected future debt. The fair value of the derivatives at 31 December 2017 is a liability of £0.9 million (2016 – £1.8 million). The derivatives are recognised in the balance sheet at their fair value as part of bank loans within creditors. The movement in the fair values is included in interest payable within the consolidated statement of financial activities and the consolidated income statement.

23. Provisions for liabilities

	Property related £m	Self insured £m	Other £m	**Total £m**
Group				
At 1 January 2017 (note 26)	25.5	2.1	1.6	**29.2**
Utilised in year	(2.1)	(0.3)	(0.6)	**(3.0)**
Charged in year	6.7	0.6	2.2	**9.5**
At 31 December 2017	30.1	2.4	3.2	**35.7**
Charity				
At 1 January 2017 (note 26)	25.4	2.1	1.7	**29.2**
Utilised in year	(2.1)	(0.3)	(0.6)	**(3.0)**
Charged in year	6.7	0.6	2.1	**9.4**
At 31 December 2017	30.0	2.4	3.2	**35.6**

The property related provisions are estimated unavoidable costs relating to vacant properties, onerous leases and dilapidations. The costs of the vacant properties are certain. However the income from sub-lets and the timing of bringing the properties into use or of their disposal are uncertain. The provisions are discounted.

The provision for onerous leases represents the minimum unavoidable lease cost loss that is expected to be incurred on sites less the net costs to fulfil the lease or to exit the lease. The net costs to fulfil the lease have been determined as the cashflows expected to be generated at the site for the remainder of the lease and the alternative use is based on assigning the site to another operator. The provision is determined on a site by site basis and discounted where appropriate.

The provisions for dilapidations are recognised at the time of entering property leases when it is probable that there is an obligation and it can be measured reliably or at the first date the conditions are met.

Notes to the financial statements continued
for the year ended 31 December 2017

23. Provisions for liabilities – continued

The self-insured provision covers the estimated exposure to medical negligence and product liability claims. The maximum exposure is limited as insurance provided by a third party will cover any claims once the cumulative claim value exceeds £1.0 million (2016 – £5.0 million).

Other provisions relate to potential contractual liabilities on certain legacy contracts and the self-pay promise where there are no time limits on the aftercare of eligible patients.

Contractual disputes are those identified by the Group, including instances where legal claims have been instigated and are being defended by the Group. Claims are considered by the Board of Trustees and are defended robustly where the Board concludes that the Group is not liable. Provision is made for the most likely outcome of each individual case, based upon the information available to the Board.

24. Permanent endowments

The permanent endowment is held for the benefit of Nuffield Health Manor Hospital in Oxford.

Group and Charity	**2017 £m**	2016 £m
At 1 January and 31 December	**0.1**	0.1

25. Financial instruments

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Financial assets				
Measured at fair value through the income statement and statement of financial activities	**0.1**	0.1	**0.1**	0.1
That are equity instruments measured at cost less impairment	**0.1**	0.1	**20.7**	20.9
That are debt instruments measured at amortised cost	**59.0**	63.1	**61.8**	65.0
Financial liabilities				
Measured at fair value through the income statement and statement of financial activities	**0.9**	1.8	**72.1**	78.5
Measured at amortised cost	**453.7**	440.4	**475.1**	459.9

Credit, liquidity and interest rate risk

Credit risk

Credit risk arises from deposits and derivative financial instruments with banks and trade debtors. The credit risk relating to banks is managed centrally within the parameters set by the Board of Trustees which restricts the counterparty banks and the exposure to each bank. The risk from trade debtors is considered low, with the values in the balance sheet being presented after an allowance for doubtful debts.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities. The Group subjects its cash flow forecasts to stress tests to assess the risk of a major cash shortfall or breaches of covenants. Whilst current forecasts do not indicate any significant reduction in the amount of cash generated by the Group, any severe shortfall would be addressed by tight control over capital spending and operating costs. At the end of 2017, there were £25 million of unutilised bank loan facilities (2016 – £46 million) and a further £10 million of unused overdraft facility (2016 – £10 million). The repayment dates of debt are set out in note 21.

Interest rate risk

The Group is exposed to fluctuations in the interest rate. The interest rate management policy is to optimise the balance between the fixed and floating interest rates in order to minimise the annual interest rate costs and reduce volatility. This is achieved by an element of fixed rate borrowing and modifying the interest rate exposure through the use of interest rate swaps; details of the latter are set out in note 21.

26. Prior year restatement of acquisition accounting

The group purchased 35 fitness gyms from Virgin Active Ltd on 31 July 2016.

The estimated fair value of the net assets acquired and recognised in the 2016 annual accounts was £25.9 million. Following a subsequent detailed review in 2017, differences were identified and have retrospectively been reflected as a prior year adjustment. The differences impact tangible fixed assets and provisions for onerous leases, resulting in a revised fair value of net assets total of £5.5 million and a revised goodwill figure of £58.5 million, as shown below.

	Previously reported 2016 £m	Adjustments £m	Restated 2016 £m
Tangible fixed assets	25.0	(3.6)	21.4
Debtors	0.9	–	0.9
Onerous lease provision	–	(16.8)	(16.8)
Net assets purchased	**25.9**	**(20.4)**	**5.5**
Consideration	64.0	–	64.0
Goodwill on acquisition	**38.1**	**20.4**	**58.5**

The adjustment has not resulted in any change to the 2016 income statement or the overall net assets shown on the 2016 balance sheet. It has changed certain categories of assets and liabilities as detailed below.

	Previously reported 2016 £m	Adjustments £m	Restated 2016 £m
Group			
Intangible fixed assets	88.2	20.4	108.6
Tangible fixed assets	529.5	(3.6)	525.9
Provisions for liabilities	(12.4)	(16.8)	(29.2)
All other net (liabilities)/assets	(543.3)	–	(543.3)
Net assets	**62.0**	**–**	**62.0**
Charity			
Intangible fixed assets	89.0	20.4	109.4
Tangible fixed assets	525.6	(3.6)	522.0
Provisions for liabilities	(12.4)	(16.8)	(29.2)
All other net (liabilities)/assets	(541.5)	–	(541.5)
Net assets	**60.7**	**–**	**60.7**

Notes to the financial statements continued
for the year ended 31 December 2017

27. Analysis of net assets between funds

The Group and Charity's assets and liabilities are unrestricted except for £0.1 million (2016 – £0.1 million) of investments that are a permanent endowment and there are restricted funds comprising cash of £0.8 million (2016 – £0.8 million). Unrestricted funds amount to £63.3 million (2016 – £61.1 million) for the Group and £61.7 million (2016 – £59.8 million) for the Charity.

The restricted funds represent donations where the monies received have not yet been used for the purpose defined by the donor. Most of the restricted donations are those given to specific sites that have not yet been used to purchase tangible fixed assets at those locations.

Funds are transferred from restricted to unrestricted when the performance condition connected with that donation has been met or has been used to purchase an asset for general purpose use.

28. Reconciliation of operating surplus to cash flow from operating activities

	Group	
	2017 £m	2016 £m
Total operating (deficit)/surplus	**(5.8)**	19.8
Exceptional items in operating surplus (note 5)	**19.9**	1.0
Depreciation and amortisation	**79.4**	68.2
Earnings before interest, tax, depreciation, amortisation, exceptional items and non-cash elements of post retirement benefits	**93.5**	89.0
(Increase) in stocks	**(0.5)**	(0.6)
Decrease/(increase) in debtors	**9.5**	(23.6)
(Decrease)/increase in creditors	**(7.0)**	20.7
(Decrease)/increase in provisions	**(1.7)**	2.6
Total cash flow from operations	**93.8**	88.1
Post retirement benefits – additional cash payments	**(2.4)**	(4.5)
Cash generated from operating activities before exceptional items	**91.4**	83.6
Exceptional cash outflow from operations		
Exceptional items in operating surplus (note 5)	**(19.9)**	(1.0)
Impairment of fixed assets	**5.0**	–
Increase/(decrease) in creditors	**1.7**	(2.5)
Increase/(decrease) in provision	**8.2**	–
Total cash outflow from exceptional activities	**(5.0)**	(3.5)
Total cash inflow from operating activities	**86.4**	80.1

29. Cash flows from investing activities

	Group	
	2017 £m	2016 £m
Receipts from sale of tangible fixed assets and computer software	**1.1**	0.5
Purchase of tangible fixed assets and computer software	**(96.4)**	(90.5)
Payment to acquire businesses and subsidiary undertakings (note 26)	**–**	(64.2)
	(95.3)	(154.2)

30. Cash flows from financing activities

	Group	
	2017 £m	2016 £m
Interest paid	**(13.9)**	(12.4)
Interest element of finance leases and hire purchase agreements	**(0.2)**	(0.3)
Receipt from new bank loans	**21.0**	88.0
Repayment of other loans	**–**	(0.2)
Finance leases and hire purchase agreements	**2.3**	3.6
	9.2	78.7

31. Analysis of net debt

	Group			
	At 1 Jan £m	Cash flow £m	Non-cash changes £m	At 31 Dec £m
Cash at bank and in hand (note 32)	2.9	0.3	–	3.2
Bank loans due after more than one year (note 20)	(244.0)	(21.0)	–	(265.0)
Secured loan notes due after more than one year (note 20)	(100.0)	–	–	(100.0)
Stakeholder bond due within one year (note 19)	–	–	(18.7)	(18.7)
Stakeholder bond due after more than one year (note 20)	(18.7)	–	18.7	–
Finance leases due within one year (note 19)	(1.9)	(0.1)	–	(2.0)
Finance leases due after more than one year (note 20)	(4.3)	(2.2)	–	(6.5)
	(366.0)	(23.0)	–	(389.0)

The Nuffield Health Annual Report provides the statements on quality improvement, accuracy and assurance that apply to all our products and services and shows data and information over a four-year reporting period (where available). The NHS core quality account indicators as it relates to Nuffield Health activities is provided on our website in the format prescribed by NHS England for 2016/17 for the indicators that are most relevant to the services provided by Nuffield Health hospitals.

Notes to the financial statements continued
for the year ended 31 December 2017

32. Cash and cash equivalents

	Group	
	2017 £m	2016 £m
Cash at bank and in hand	**3.2**	2.9

33. Capital commitments

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Contracted for but not provided in these financial statements	**4.3**	5.4	**4.3**	5.4

34. Obligations under leases and hire purchase contracts

	Group		Charity	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Future minimum rentals under non-cancellable operating leases:				
Land and buildings				
Less than 1 year	**49.5**	47.8	**49.5**	48.0
Between 1 and 5 years	**196.6**	188.8	**196.6**	188.0
After 5 years	**558.8**	504.3	**558.8**	504.3
	804.9	740.9	**804.9**	740.3
Other				
Less than 1 year	**0.7**	0.5	**0.7**	0.5
Between 1 and 5 years	**0.6**	1.5	**0.6**	1.5
After 5 years	**0.1**	–	**0.1**	–
	1.4	2.0	**1.4**	2.0
Future minimum payments due under finance leases and hire purchase agreements:				
Less than 1 year	**2.9**	1.6	**2.9**	1.6
Between 1 and 5 years	**6.3**	3.1	**6.3**	3.1
	9.2	4.7	**9.2**	4.7

35. Related party transactions
Trustees and executive managers are considered to be key management personnel. Total remuneration of these individuals was £2.8 million (2016 – £3.1 million). The Charity has no other related party transactions in 2017, other than with wholly owned undertakings, and is using the exemption allowed by FRS 102 to not disclose transactions with wholly owned undertakings.

36. Post balance sheet event
There are no significant post balance sheet events.

Board of Trustees' Quality Assurance Statement

The Board Quality and Safety Committee (BQSC) is the quality and safety-focused committee that supports the Board in its oversight of the products and services we provide to patients and customers.

The BQSC seeks assurance that the systems and processes in relation to quality and safety are robust and well-embedded so that priority is given at the appropriate level within the organisation to identify and manage risks to quality and safety.

The BQSC provides the scrutiny to ensure that the accountable Directors are:

- **setting standards** – setting the required quality standards against the up-to-date evidence base
- **achieving** – ensuring required standards are achieved, including through audit and measuring customer feedback
- **taking action** – investigating and taking action on sub-standard quality and safety performance and monitoring reports on preventive and corrective actions
- **driving quality** – planning and driving continual quality improvement to meet and exceed customer expectations and meet the requirements of interested parties such as the Care Quality Commission, Healthcare Improvement Scotland and Healthcare Inspectorate Wales
- **embedding best practice** – identifying, sharing and ensuring delivery of best practice including improvements to quality management systems and processes
- **managing risk** – identifying and managing risks to quality of care including approving resources to meet improvement plans.

The BQSC has delegated authority from the Board to provide assurance regarding the content of the Annual Quality Report, which is now incorporated in this 2017 Annual Report along with the NHS Quality Account. The NHS core quality account indicators as they relate to Nuffield Health activities are provided on our website in the format prescribed by NHS England for 2017 – 2018.

As Chair of the BQSC, I am assured that the Committee has reviewed reliable sources of information that have been triangulated with internal and external (including regulatory) assessment and/or inspection, and I am satisfied with the course of action followed.

The Committee would like to acknowledge the work of staff at all levels and in all parts of Nuffield Health, who remain dedicated to providing safe, effective and caring services to our members and patients. We would also like to thank the team that supports our work and to commend their consistent openness and relentless quest for improvement.

Joanne Shaw
Governor and Chair of the Board Quality and Safety Committee

Additional information continued

Reviews of Nuffield Health hospitals by independent regulators

All our hospitals are inspected by independent healthcare regulators to ensure they meet the fundamental standard of quality and safety as determined by the regulating body of each country. The table below details the rating of our hospitals according to the findings of the Care Quality Commission, Health Inspectorate Scotland (HIS) and Health Inspectorate Wales (HIW). Full reports of the inspections are available on the regulators' websites.

Hospital	Date of review	Overall	Safe	Effective	Caring	Responsive	Well-led
Bournemouth	Mar 2017	RI	***	***	***	***	***
Brentwood	June 2017	G	O	G	G	G	G
Brighton	Feb 2018	G	G	G	G	G	G
Bristol	Aug 2016	G	G	G	G	G	G
Cambridge	Nov 2016	O	G	G	O	O	O
Cheltenham	Jul 2016	G	G	G	G	G	G
Chester	Dec 2016	G	G	G	G	G	G
Chichester	Oct 2017	G	RI	G	G	G	G
Derby	May 2016	G	G	G	G	G	G
Exeter	Oct 2016	G	G	G	G	G	G
Guildford	Aug 2017	G	G	G	G	G	G
Haywards Heath	Dec 2017	G	RI	G	G	G	G
Hereford	Mar 2017	G	G	G	O	G	G
Ipswich	Nov 2016	G	RI	O	O	G	G
Leeds	Jun 2017	O	G	G	O	O	G
Leicester	Mar 2017	G	G	G	G	G	G
Newcastle	Aug 2016	G	G	G	G	G	G
North Staffordshire	Feb 2016	G	RI	G	G	G	G
Oxford	Nov 2016	G	G	G	G	G	G
Plymouth	Nov 2015	RI	RI	G	G	G	RI
Shrewsbury	Jan 2017	G	RI	G	G	G	G
Taunton	Nov 2016	G	G	G	G	G	O
Tees	Oct 2017	O	G	G	O	O	O
Tunbridge Wells	Jul 2017	G	G	G	G	G	G
Warwickshire	Mar 2017	G	G	RI	G	G	G
Wessex	Mar 2016	G	G	G	G	G	RI
Woking	Aug 2017	G	G	G	G	G	G
Wolverhampton	Apr 2017	G	G	G	G	G	RI
York	Jun 2017	G	G	G	G	G	G
Cardiff & Vale**		No issues identified by HIW					
Glasgow*		Very Good (Health Inspectorate Scotland)					

● Outstanding ● Good ● Requires Improvement

* HIS grade 5 areas using a six point scale and we have aggregated these into an overall score.
** HIW conducts a review and provides a letter of findings, but not a rating. No breaches were identified in its inspection.
*** Bournemouth CQC inspection May 2016, re-inspected March 2017 but not rated.

Annual Quality Report 2017 objectives

Key objectives	What we have done
Use national guidelines and recognised best practice to redesign our pre-operative assessment (POA) processes	• Reviewed existing processes and completed gap analysis • Regional 'POA Champions' are in place • A best practice model has been developed, piloted in two sites and revised • An education framework is in place including 10 spaces on POA course and revised competency assessment tool • Key policies have been produced • Share and learn WebEx for POA incidents held monthly
Further enhance our operating theatre safety standards	• Theatre manager generic objectives defined and set • Clinical audit KPIs defined for care record documentation compliance • Recruitment and selection model for theatre managers in place • Nine new theatre managers recruited • Quality Assurance Review follow-up meetings completed • Theatre expert advisory group meeting and theatre managers forum held • Established regional theatre manager leads • WHO checklist designed, piloted and launched • JAG lead nurse appointed
Further enhance assessment, monitoring and early recognition and management of patients whose condition is deteriorating	• Early recognition tool with national early warning score (NEWS) completed. Triggers prompt rapid assessment for sepsis and acute kidney injury and place greater emphasis on post-operative fluid management • Revised long stay care record with key patient safety enhancements including POA and WHO checklist • All processes have been designed for integration with the electronic health record (EHR) • Piloted at three hospitals
Align non-acute service areas with a standard approach to first aid and emergency scenarios	• Basic life support training and automated external defibrillators have been rolled out to all our fitness and wellbeing consumer and corporate sites
Develop a 'One Nuffield Health' pathway for ophthalmic surgery	• We have explored optimum pathways considering every aspect of the patient journey
Align our approach to quality governance across Nuffield Health	• Established, tested and refined the clinical indicators to be used for quality assurance • Both full and theatre-specific quality assurance reviews (QARs) of all sites have been completed and follow ups of target sites have been performed • Unannounced full QARs of CQC 'Requires Improvement' sites have been completed

Core NHS quality indicators

In 2017, we continued to strive for the highest safety practices across all our activity. We follow closely some key indicators of safety to identify areas of good practice and those for improvement. As we increase our scrutiny in these areas, we anticipate identifying additional cases that help us to implement steps that ultimately improve our performance.

Appendices

Internal and external audit

Nuffield Health assures the quality of services provided by undertaking, and being subject to, continual internal and external audit programmes. The following expert advisory groups (EAGs) are in place and further assurance reviews are undertaken at the Quality Committee and the Board Quality and Safety Committee.

Nuffield Health expert advisory groups (EAGs)

Decontamination
Theatre
Assisted Conception Services
Diagnostic Imaging
Oncology
Critical care and resuscitation
Physiotherapy
Clinical
Medicines management
Medical devices
Pathology
Infection prevention
Children and safeguarding
Fitness
Occupational health
Research and impact
Medical futures
Medical Society Committee
Primary care

Nuffield Health joint advisory groups (JAGs)

Quality assurance JAG
Gastrointestinal endoscopy JAG

External advisors

Nuffield Health is grateful for the support and expertise provided to us by a range of subject-matter experts. A list of these is available on our website.

Regulatory frameworks

Regulators of health and care professionals, products and services:

- Professional Standards Authority – oversight of regulators of health and social care professionals in the UK
- Health and Safety Executive (HSE) – statutory body to reduce work-related death and serious injury in Great Britain
- Local Authority/Food Standards Agency – environmental health officers' inspection of food quality and hygiene
- Care Quality Commission (CQC) – inspection of health and care services in England
- Healthcare Improvement Scotland (HIS) – inspection of healthcare in Scotland
- Healthcare Inspectorate Wales (HIW) – inspection of healthcare in Wales
- Medicines and Healthcare Products Regulatory Agency (MHRA) – registration of medical devices
- Human Fertilisation and Embryology Authority (HFEA) – licensing and monitoring of UK fertility clinics
- General Pharmaceutical Council (GPhC) – regulator for pharmacy premises in Great Britain
- Office for Standards in Education, Children's Services and Skills (Ofsted) – regulator of care/education (e.g. Nuffield Health crèche facilities)

Additional information on quality assurance not already included in this report:

- The Radiological Protection Centre (RPC) continues to independently assure that Nuffield Health uses ionising and non-ionising radiation safely in order to protect the wellbeing and safety of patients and staff
- All Nuffield Health pathology facilities are accredited by clinical pathology accreditation (CPA) and are also all compliant with blood safety quality regulations (BSQR)
- All six hospital sterile services units remain registered with the UK competent authority (MHRA) and continue to be audited by the notified body, SGS Ltd. This registration provides evidence of compliance with Medical Devices Directive 93/42/EEC (and its amendment 2007/47/EC) as well as a robust quality management system based on ISO 9001:2008 and ISO 13485:2012

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All our hospitals in England, and those clinics delivering regulated activities, are registered with the Care Quality Commission. Our hospital in Glasgow is registered with Healthcare Improvement Scotland (HIS) and our hospital and clinic in Cardiff are registered with Healthcare Inspectorate Wales.