Monitor

Making the health sector work for patients

# Performance of the NHS foundation trust sector

## Nine months ended 31 December 2013

# Contents

Monitor
Making the health sector work for patients



All financial information in this report is year to date and based upon unaudited quarter 3 monitoring returns from the 147 NHS foundation trusts at 31 December 2013. For foundation trusts authorised during the year, we only include financial data from the date of authorisation. New foundation trusts this year are Kingston, authorised on 1st May, and Western Sussex FT, authorised on 1st July.

# 1.0 Executive summary (1/3)

Monitor
Making the health sector work for patients

## Operational performance

We track the performance of foundation trusts to help them prevent operational issues becoming quality problems and adversely affecting patient care. For the quarter ended 31 December 2013, the sector overall achieved the performance standard for all the targets that we track, but there are challenges in some individual foundation trusts. The sector has so far managed to cope with winter pressures on A&E departments, but there has been a deterioration in performance over waiting times, particularly for cancer patients

This quarter, 28 foundation trusts failed the 4 hour A&E waiting time target. This compares with 11 foundation trusts in the previous quarter and 32 in the same quarter last year. Overall in the quarter, 95.2% of A&E patients at foundation trusts waited four hours or less. Weekly figures indicate that this has dropped to 94.6% for quarter 4 up to 7 February, although this is slightly better than the same period last year when it was 94.2%. Since late December 2013, Monitor has tracked individual trust performance on a weekly basis and supported the poorer performers in developing strategies for improvement. Our data suggests that the greatest pressure is a lack of beds for admission of patients from A&E, which in turn is due to delayed discharges. Foundation trusts must therefore continue to work with their partners in community health and social care services to address these problems.

Overall, the sector has met performance standards for all three elective waiting time targets throughout the quarter. However, more trusts have breached the targets than last quarter and the same period last year. Furthermore, the size of the waiting list of patients awaiting treatment has risen significantly.

The foundation trust sector also achieved the performance standards for all cancer waiting time targets for the quarter ended 30 September 2013, the latest available data. However, performance against the '62 day wait from GP referral' target has reached its lowest level in two years, and we are monitoring this deterioration closely. 18 trusts breached this performance standard this quarter, an increase from 12 last quarter and compared to just four this time last year. Reasons given for the breaches vary, but an increased level of referrals is a possible common factor, which may be due to recent awareness campaigns including 'Movember'.

The total number of *C. difficile* cases reported by foundation trusts has fallen once again, by 16% compared to the equivalent period last year and 5% since the last quarter, despite it being a winter quarter.

# 1.0 Executive summary (2/3)

Monitor
Making the health sector work for patients

## Financial performance

Overall, foundation trusts made a surplus[1] of £135m in the 9 months ended 31 December 2013, which is £38m behind plan. The year to date EBITDA[2] margin (earnings before interest, tax, depreciation and amortisation as a proportion of revenue) has declined from 5.30% at 30 September 2013 to 5.26%. This is in contrast to the pattern of recent years where margins strengthened as the year progressed.

The majority of foundation trusts are breaking even or are in surplus, but 39 trusts have reported deficits, which is 15 more than planned a deficit at this stage. The number of trusts in deficit has almost doubled over this time last year, although most of them are already subject to regulatory action, through which Monitor is helping them overcome their problems. The combined value of the deficits is £180m against a planned gross deficit of £168m. 60% of the gross deficit value is attributable to just 5 trusts, where we are taking regulatory action, but there are also 17 trusts with very small deficits contributing to the overall number in deficit.

Although the foundation trust sector as a whole remains in surplus, the size of the surplus has more than halved since this time last year, reflecting the tough financial climate and foundation trusts' response. The fall in the value of surpluses across all foundation trusts has been more significant in eroding the sector's overall financial performance than the growth in the size of the gross deficit. This is attributable to the decline in EBITDA margins, which in turn is due to a failure to deliver cost improvements, combined with pressures on both pay and non-pay costs that are not due to increased activity. This quarter, foundation trusts are 18% behind plan in delivering efficiency savings, a 1% improvement on last quarter, but worse than the 15% under-delivery of efficiency savings this time last year.

Total cash held by foundation trusts has fallen £75m more than planned from £4.5bn at the beginning of the year to £3.7bn at 31 December 2013. This is despite total capital spending being £0.4bn lower than planned and is due to lower EBITDA, delays in receiving payments from commissioners and not drawing down planned loans.

1. Throughout this report references to surpluses or deficits are before impairments and gains or losses on transfers by absorption.
2. EBITDA is an approximate measure of available cash flow. It does not take into account the impact of depreciation, amortisation, financing costs or taxation. This means it can be used to compare performance between organisations that may have very different levels of capital investment and debt financing.

# 1.0 Executive summary (3/3)

Monitor
Making the health sector work for patients

## Regulatory performance

At 31 December 2013, 25 of 147 foundation trusts were subject to enforcement action by Monitor. This is four more than at 30 September 2013 as a result of *Aintree*, *Colchester, Heart of England* and *Calderstones* being found to be in breach of the conditions of their licence during the quarter.

Since 31 December, we have taken enforcement action at one more foundation trust, *Cumbria Partnership,* bringing the total number of foundation trusts currently in breach of their licence to 26. Within this group, 8 trusts are in special measures due to concerns relating to significant quality issues and leadership at the trust. In all these cases, we have appointed an improvement director to monitor progress against the trust's action plan.

Currently, we are formally investigating a further 8 trusts for potential licence breaches; two due to concerns raised by the Care Quality Commission, three due to repeated failure of the performance standard for a particular target and three due to financial concerns.

In January 2014, we agreed the Trust Special Administrator's proposed dissolution of *Mid Staffordshire NHS Foundation Trust* and have passed the recommendations from its report to the Secretary of State.

# 2.0 Overview of the sector

Monitor
Making the health sector work for patients

| | Number of trusts | 9 months to 31 Dec 2013 | | | Red rated trusts | |
|---|---|---|---|---|---|---|
| | | Operating Revenue £m | EBITDA % | Average CoSRR | Number | % |
| Acute | 83 | 21,864 | 5.0% | 3.2 | 22 | 27% |
| Mental health | 41 | 6,113 | 5.6% | 3.8 | 3 | 7% |
| Specialist | 18 | 2.143 | 7.0% | 3.9 | 1 | 6% |
| Ambulance | 5 | 659 | 6.6% | 4.0 | - | 0% |
| Total | 147 | 30,779 | 5.3% | 3.5 | 26 | 18% |

**Analysis of Acute sector:**

| | Number of trusts | 9 months to 31 Dec 2013 | | | Red rated trusts | |
|---|---|---|---|---|---|---|
| | | Operating Revenue £m | EBITDA % | Average CoSRR | Number | % |
| Teaching † | 18 | 8,684 | 5.8% | 3.2 | 3 | 17% |
| Large (revenue over £400m p.a.) | 6 | 2,303 | 5.9% | 3.3 | 1 | 17% |
| Medium (revenue £200m-£400m p.a) | 39 | 8,244 | 4.3% | 3.2 | 12 | 31% |
| Small (revenue under £200m p.a.) | 20 | 2,663 | 3.5% | 3.2 | 6 | 30% |
| Total | 83 | 21,864 | 5.0% | 3.2 | 22 | 27% |

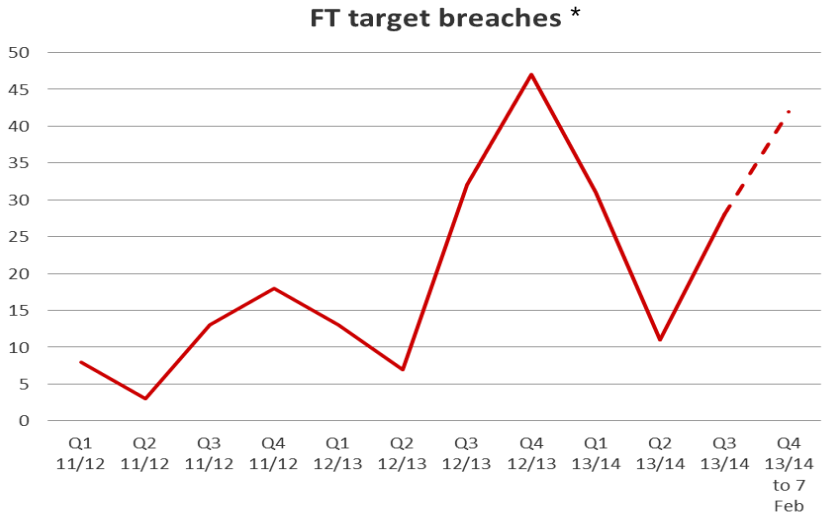
† "Teaching" acute trusts are those acute trusts who are members of AUKUH (the Association of UK University Hospitals), a list is available on request or at www.aukuh.org.uk

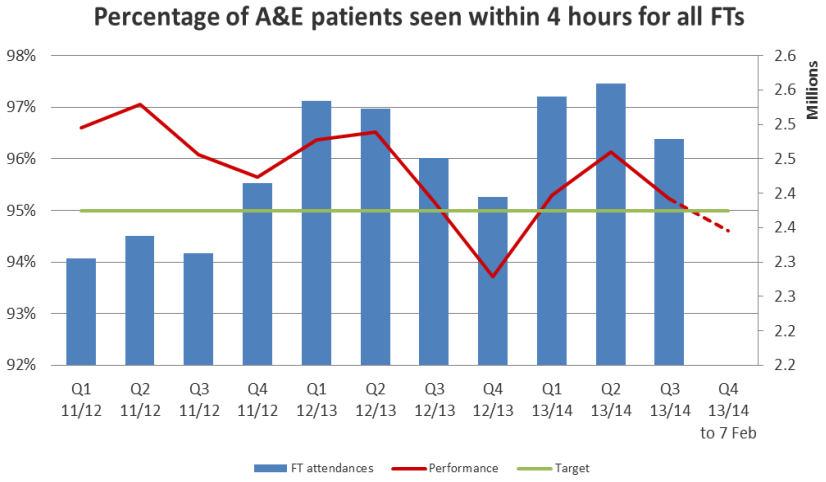
Monitor
Making the health sector work for patients

# 3.0 Operational performance

# 3.1 Accident & Emergency

Monitor
Making the health sector work for patients



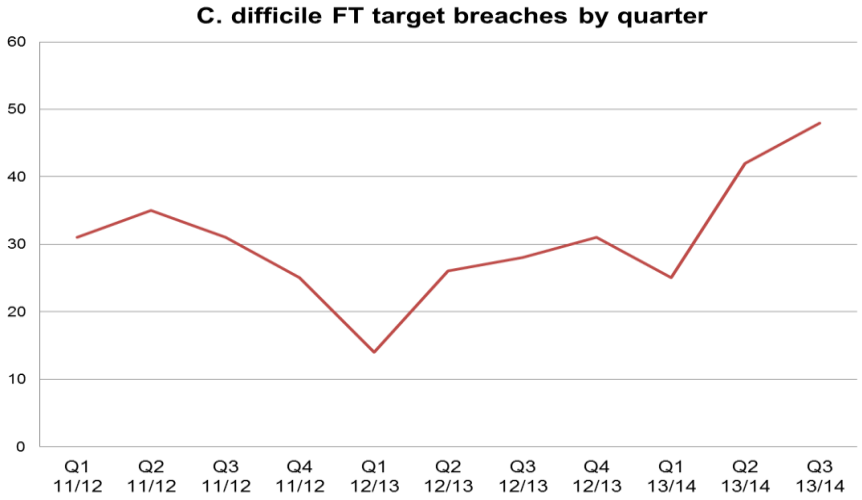



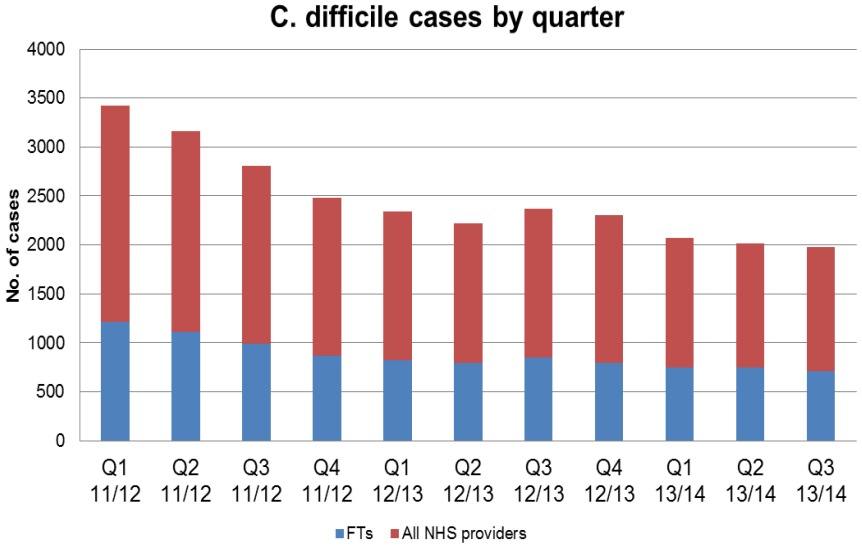

*100 FTs report performance against the A&E target

- 34% of acute foundation trusts failed the A&E waiting time target in Q3. This is a slight improvement compared with 39% in the same quarter in 12/13, but a large deterioration compared to 16% in 11/12.
- Overall, 95.2% of A&E patients at foundation trusts were treated within 4 hours in Q3, which is almost identical to the same period last year despite 27,471 more attendances, and 7,688 more emergency admissions.
- However, in Q4 to 7 February performance has declined to 94.6%. This compares with 94.2% in the same period last year.
- Since late December 2013, Monitor has had a dedicated team tracking weekly A&E performance at foundation trusts and assisting poorer performers with developing improvement strategies. Data collected from this process suggests that the greatest pressures in the system arise from temporary mismatches between demand and supply of inpatient beds, primarily caused by surges in the volume and acuity of patients requiring admission (as distinct from the absolute number of attendances), as well as delays in discharging inpatients to free up beds for new admissions from A&E.
- During the quarter, several foundation trusts with the poorest A&E performance have undertaken an exercise in which resources were diverted from other areas in the hospital to A&E for a week to achieve a ‘perfect week’. The learning from this exercise has raised A&E performance at these trusts, with some evidence that these improvements can be sustained.

# 3.2 Infection control

Monitor
Making the health sector work for patients

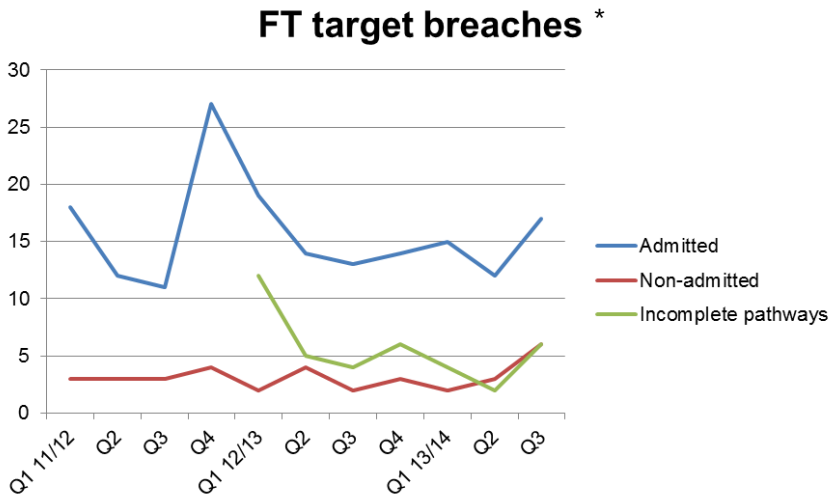


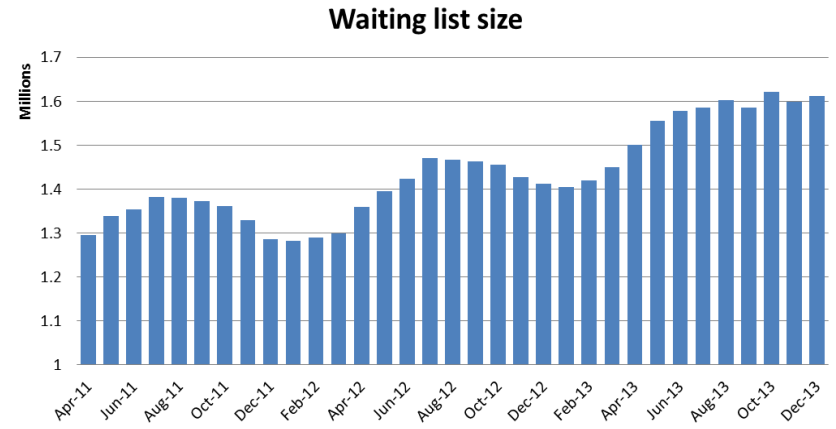




- The decline in *C. difficile* cases across foundation trusts is continuing with 712 cases reported in Q3 13/14 compared with 747 in the previous quarter and 847 cases in Q3 12/13. This is a 16% year on year fall.
- Despite the overall improvement in foundation trusts' performance, the number of trusts breaching their individual target has reached 48 this quarter from 42 at Q2 13/14 (100 foundation trusts report performance against the *C. Difficile* target). This reflects the fact that individual targets are reduced every year and are now so low for some trusts that, if they breach in an early quarter, it is unlikely that they will be able to recover their trajectory through later good performance.
- 15 trusts who failed the target had not declared a risk in their plans, while a further 19 trusts (including specialist and mental health trusts) have declared a risk, but not yet failed the target. This all suggests that the number of trusts breaching the target will increase again at Q4.
- NHS England recognises that some trust targets were too ambitious, resulting in breaches that were not due to particular failings on the part of those trusts. The calculation methodology for the 14/15 targets is therefore being reviewed and commissioners may be given greater discretion not to fine providers for breaching targets.

# 3.3 Elective waiting time targets

Monitor
Making the health sector work for patients



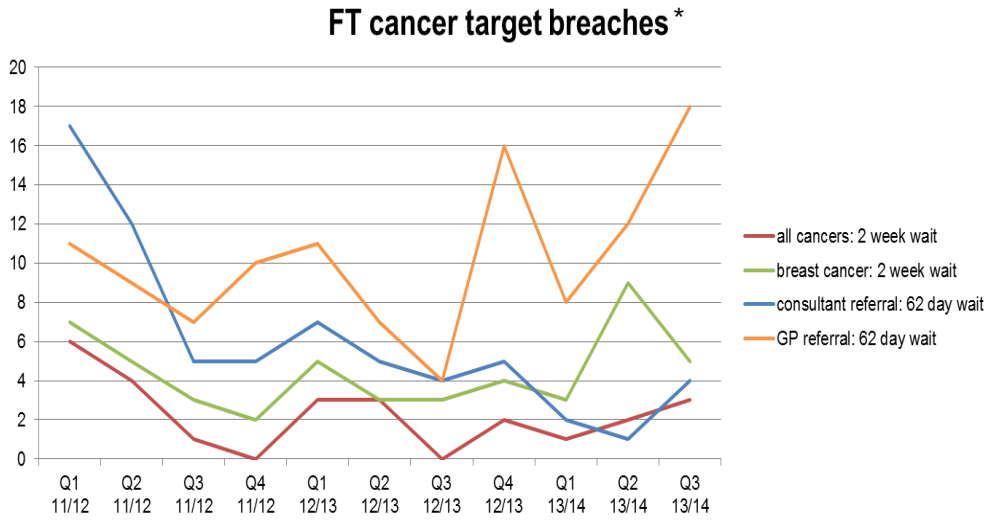



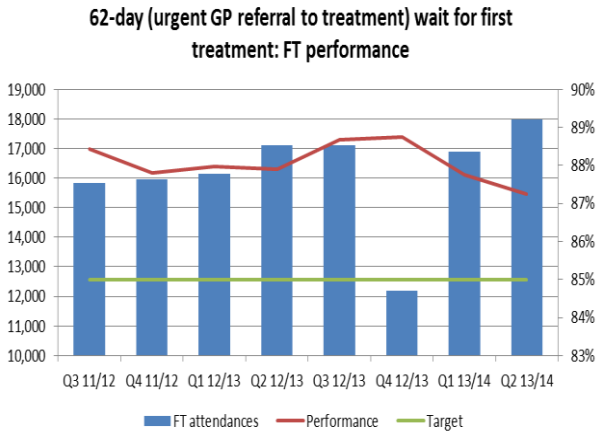

*FTs are deemed to have breached a target if they fail to achieve the performance standard in any month in the quarter. This quarter, November was the worst month for overall sector performance.
122 FTs report performance against the non-admitted and incomplete pathway targets and 106 against the admitted target.

- Overall, foundation trusts have achieved all three elective waiting time standards this quarter and continue to perform better collectively that NHS trusts. However, more foundation trusts have breached all three target standards this quarter than last.
- For inpatients, 90.7% started treatment within 18 weeks in Nov 2013, compared to 92.1% in Nov 2012 and against a performance standard of 90% (admitted target). This is reflected in 17 trusts failing the target this quarter (Q3 12/13: 13). General surgery and trauma & orthopaedics are the greatest contributor to admitted target failures.
- For outpatients, 96.5% started treatment within 18 weeks in Nov 2013, compared with 97.3% in Nov 2012 and a performance standard of 95% (non-admitted target). This is reflected in 6 trusts failing the target this quarter (Q3 12/13: 2), including two mental health trusts experiencing isolated problems, which can be addressed swiftly and sustainably.
- For patients waiting to start treatment, 94.4% had been waiting less than 18 weeks in Nov 2013, compared with 94.6% in Nov 2012 and against a performance standard of 92% (incomplete pathways target).
- In Dec 2013, 1.6m foundation trust patients were waiting for treatment, which is 14% higher than Dec 2012. Of 80 trusts who have seen waiting list growth, 75% cited a significant increase in referrals as a primary reason for this while only 20% cited a reduction in capacity, data quality issues and/or other factors. Further work is required to understand this information.
- Notably, the biggest contributors to waiting list growth are not the specialities which perform worst against the admitted and non-admitted targets, so larger waiting lists will not necessarily result in future deterioration in target performance.
- Nationally, median waiting times in Dec 2013 were 8.3 weeks (admitted) and 4.9 weeks (non-admitted) versus 8.0 weeks and 4.0 weeks in Dec ’12.
- A recent NAO report into elective waiting times found some trusts were not interpreting the rules correctly. Monitor is working with NHS England, the DH and the TDA to improve the reporting and audit of waiting time data.

# 3.4 Cancer waiting time targets

Monitor
Making the health sector work for patients




- The number of trusts breaching the 85% performance standard for the 62 day wait from GP referral target has increased to 18 at Q3 from 12 at Q2. This compares with just 4 breaches in Q3 2012/13.
- At 87.3%, Q2 aggregate foundation trust performance against this target was at its lowest level in two years, which may be due to an increased level of referrals and we will be monitoring this downward trend.
- Where trusts have breached the performance standard for this target, several have cited increased referrals as a factor although other issues such as complex pathways, late referrals and consultant capacity have also been mentioned.
- Fewer trusts have breached the performance standard for the breast cancer 2 week wait target in Q3, with 5 trusts breaching compared with 9 last quarter. However this is still higher than the 3 breaches in Q3 2012/13. Of the 5 trusts that breached, 2 identified inadequate outpatient capacity as the primary cause, while the other 3 attributed most of the breaches to patients cancelling or declining appointments.
- Breaches of the performance standard for the other two cancer targets that we monitor have also increased this quarter. However, the number of breaches remains low and in Q2, which is the most recent data available, overall sector performance against these targets was above the performance standard. Furthermore, aggregate performance against the all cancers two week wait target was better than performance in the equivalent period last year, despite increased patient numbers.

*80 FTs report performance against the breast cancer: 2 week wait target
88 FTs report performance against the GP referral: 62 day wait target
97 FTs report performance against the all cancers: 2 week wait target and the consultant referral: 62 day wait target

Monitor
Making the health sector work for patients

# 4.0 Financial performance

# 4.1 Income & expenditure

Monitor
Making the health sector work for patients

| Income Statement | 2013-14 Q3 YTD Actual £m | 2013-14 Q3 YTD Plan £m | Variance to plan £m | Variance to plan % | 2012-13 Q3 YTD Actual £m |
|---|---|---|---|---|---|
| **Operating Revenue for EBITDA** | 30,779 | 30,092 | 687 | 2% | 28,921 |
| Pay costs | (19,490) | (19,092) | (399) | -2% | (18,222) |
| Other operating expenses | (9,669) | (9,291) | (377) | -4% | (8,974) |
| **EBITDA** | **1,620** | **1,709** | **(89)** | **-5%** | **1,725** |
| Depreciation | (885) | (906) | 21 | 2% | (831) |
| Finance costs | (251) | (252) | 0 | - | (240) |
| PDC dividend | (363) | (370) | 7 | 2% | (364) |
| Other non-operating items | 35 | 6 | 29 | 483% | 126 |
| Restructuring costs[1] | (21) | (15) | (6) | -41% | (18) |
| **Net surplus** | **135** | **173** | **(38)** | **-22%** | **347** |
| Gains/(losses) on transfers [2] | 102 | 0 | 102 | - | 78 |
| Impairments | (63) | (40) | (23) | -58% | (51) |
| **Net surplus after impairments and transfers by absorption** | **174** | **133** | **41** | **31%** | **373** |
| **EBITDA %** | 5.3% | 5.7% | | | 6.0% |
| **Surplus %** | 0.4% | 0.6% | | | 1.2% |

**Notes:** Expenses are shown as red bracketed numbers throughout this report and unfavourable variances are also red.

1. For consistency with NHS trust reporting, from this quarter, we will deduct restructuring costs in calculating net surplus/deficit.
2. Gains/losses relating to the transfer of assets/liabilities from abolished NHS bodies to FTs on 1 April 2013 have been taken directly to reserves, as required under an HMT dispensation to current accounting rules. All other transfers of assets/liabilities from other NHS bodies to FTs are recorded as a gain/ loss on transfer within the current year surplus/deficit.

- For the second consecutive quarter sector EBITDA is behind plan.
- The decline in EBITDA performance is driven by a disproportionate increase in non-pay costs relative to revenue growth as well as unplanned use of contract and agency staff (see slide 4.3).
- The sector's net surplus is also behind plan, but benefits from a favourable variance in other non-operating items. This is due to a termination charge payable to the PFI provider at *Northumbria* not being paid this quarter because of the deferral of a refinancing scheme. However, this may reverse next quarter, if the refinancing goes ahead as planned.
- The sector is ahead of plan in terms of its net surplus after impairments and transfers by absorption. This is because of one off accounting gains at *Kings* and *Oxleas* due to asset transfers relating to the dissolution of *South London Healthcare NHS Trust*.
- In this quarter asset impairments have been recorded at 32 trusts (16 in Q2) and restructuring costs at 29 trusts (26 in Q2).

Sector financial performance is behind plan in difficult economic conditions.
The bottom line surplus is better than planned due to one off accounting gains.

# 4.2 Revenue analysis

Monitor
Making the health sector work for patients

| Analysis of operating revenue | 2013-14 Q3 Actual £m | 2013-14 Q3 Plan £m | Variance £m | Variance % | 2012-13 Q3 Actual £m |
|---|---|---|---|---|---|
| Ambulance | 641 | 633 | 8 | 1% | 398 |
| Community | 2,223 | 2,221 | 2 | - | 2,206 |
| Mental health | 4,220 | 4,186 | 35 | 1% | 4,202 |
| Elective in-patients | 2,239 | 2,311 | (71) | -3% | 2,330 |
| Elective day cases | 1,796 | 1,742 | 54 | 3% | 1,551 |
| Outpatients | 3,473 | 3,349 | 123 | 4% | 3,292 |
| Non-elective in-patients | 4,843 | 4,809 | 34 | 1% | 4,887 |
| A&E | 670 | 661 | 9 | 1% | 635 |
| Other NHS clinical | 6,686 | 6,397 | 290 | 5% | 5,645 |
| Contract penalties and adjustments | (6) | (1) | (5) | - | 2 |
| Non-NHS clinical | 539 | 526 | 13 | 3% | 465 |
| **Total clinical revenue** | **27,325** | **26,834** | **491** | **2%** | **25,613** |
| Research and Development | 436 | 423 | 13 | 3% | 422 |
| Education and Training | 1,121 | 1,089 | 32 | 3% | 1,091 |
| PFI specific revenue | 24 | 14 | 9 | 66% | 19 |
| Other non-clinical revenue | 1,946 | 1,817 | 129 | 7% | 1,849 |
| **Total non-clinical revenue** | **3,526** | **3,342** | **184** | **5%** | **3,382** |
| **Total operating revenue** | **30,850** | **30,176** | **674** | **2%** | **28,994** |
| Less: Donations & Grants of PPE | (71) | (84) | 13 | -15% | (73) |
| **Operating Revenue for EBITDA** | **30,779** | **30,092** | **687** | **2%** | **28,921** |

- Operating revenue increased by £1,858m compared with the same quarter last year, of which c. £660m was due to new foundation trusts and the merger of *Great Western Ambulance* with *South Western Ambulance*.
- The drop in elective in-patient revenues is consistent with a similar fall in reported elective in-patient activity. This may reflect urgent care pressures, but could also reflect a policy to treat patients as day cases rather than in-patients, given the 16% increase in elective day case revenues since last year.
- According to available activity data, outpatient attendances are up 1.5% against the overall plan. Therefore, the 4% variance in outpatient revenues suggests that the actual case mix is quite different from the plan and, possibly, more outpatient procedures are being performed than planned.
- Non-elective revenues are up by less than one per cent despite a 2% increase in activity, which is consistent with the 30% marginal rate tariff.
- Most of the variance in acute revenues is in the “Other NHS clinical” line. High cost drugs and devices make up £1.8bn of this line and many trusts attribute variances to reimbursement of these costs, not accounted for in plans.
- However, examination of trust by trust variances suggests a significant level of ad hoc commissioner support. The largest individual variance is at *King’s* and primarily relates to its takeover of *Princess Royal University Hospital,* while a further £63m sits in 11 financially troubled trusts. We also found a variance of £84m in 8 specialist/ teaching hospitals, perhaps reflecting their negotiating power with commissioners.
- Non-clinical revenue is £184m above plan, the largest element of which is £48m for ‘non-patient services to other bodies’.

# 4.3 Operating expenses

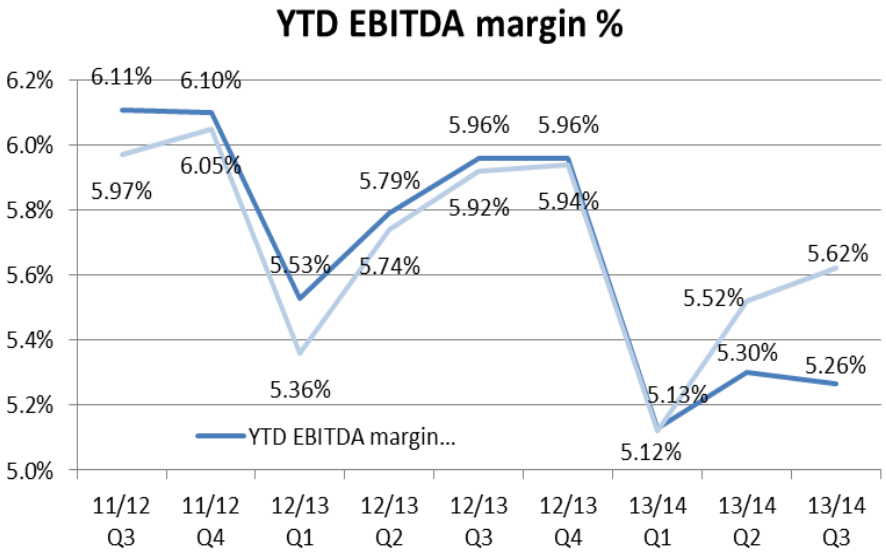
Monitor
Making the health sector work for patients

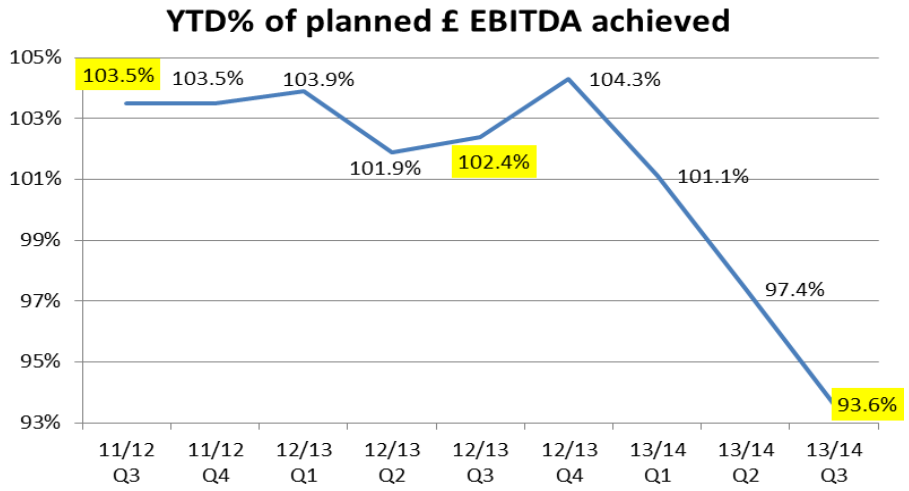
| Analysis of operating expenses | 2013-14 Q3 Actual £m | 2013-14 Q3 Plan £m | Variance £m | Variance % | 2012-13 Q3 Actual £m |
|---|---|---|---|---|---|
| Pay - employees | (18,513) | (18,694) | 181 | 1% | (17,465) |
| Pay - contract and agency staff | (977) | (397) | (580) | -146% | (757) |
| **Pay expense** | **(19,490)** | **(19,092)** | **(399)** | **-2%** | **(18,222)** |
| Ambulance operating costs | (52) | (53) | 1 | 2% | (31) |
| Clinical supplies | (2,618) | (2,504) | (114) | -5% | (2,447) |
| Drugs | (2,394) | (2,243) | (151) | -7% | (2,107) |
| Non Clinical Supplies | (1,196) | (1,140) | (57) | -5% | (1,119) |
| Research & Development expense | (90) | (89) | (1) | -1% | (81) |
| Education and training expense | (77) | (81) | 4 | 5% | (69) |
| Consultancy expense | (96) | (74) | (22) | -30% | (88) |
| PFI operating expenses | (292) | (287) | (5) | -2% | (267) |
| Other operating expenses | (2,854) | (2,821) | (32) | -1% | (2,764) |
| **Total operating expenses for EBITDA** | **(29,159)** | **(28,383)** | **(776)** | **-3%** | **(27,196)** |

- The contract and agency overspend has become more pronounced this quarter (Q2: £365m). All trust types are overspent on contract and agency costs while payroll costs are below plan, but the highest overspend is in acute trusts at 152%, followed by mental health trusts at 141%. Acute trusts also have the highest net overspend on pay costs at 2.6%, while mental health trusts have a net overspend of just 1%.
- The overspend on pay costs is more pronounced in red rated trusts, at 2.7% against 2.1% for all trusts, but this seems to reflect that they are predominantly acute trusts rather than any specific impact from Monitor's regulatory actions.
- Acute trusts have told us that contract and agency overspends can be due to difficulties recruiting permanent staff, particularly nurses and middle grade doctors. While labour market factors will certainly be having an impact, the size of the variance suggests poor workforce planning may be contributing. Some trusts in special measures have highlighted pay variances due to increased staffing in response to Francis and Keogh.
- The sector is reporting a 7% increase in drug costs, despite delivering 89% of drug cost improvement programmes and trusts attribute 99% of the variance to volume rather than price changes. This is out of kilter with any activity increase and is largely attributed by trusts to high cost drugs that are reimbursable, although it is difficult to verify this.
- While the adverse variances on clinical and non clinical supply costs are also disproportionate to any revenue growth, they incorporate 27% and 13% under-delivery of cost improvements. Once again, trusts are attributing most of the variance to volume rather than price changes.

# 4.4 EBITDA margin trend

Monitor
Making the health sector work for patients




- The two year EBITDA margin graph, opposite, demonstrates a cyclical variation in margins which trusts attribute to the build up of efficiency savings and unplanned activity as the financial year progresses. Historically, the EBITDA margin has peaked at Q3, but this year it has deteriorated from Q2.
- This graph also illustrates the downward pressure on margins during this period, with the gap between actual performance and the plan narrowing until the lines actually crossed last quarter. This demonstrates that trusts are not only planning lower margins year on year, but for the first time are failing to deliver planned margins.

- Over the past two years, foundation trusts as whole consistently over-delivered on their planned EBITDA until last quarter. The under-delivery reported last quarter has worsened in Q3.
- The figures highlighted in the chart opposite compare Q3 achievement for the sector (as a proportion of what they planned) over the past three years, and illustrates the deterioration in financial planning over that period.

# 4.5 Segmental analysis

Monitor
Making the health sector work for patients

| 2013/14 Q3 By sector | Acute (83 trusts) £m | Mental Health (41 trusts) £m | Specialist (18 Trusts) £m | Ambulance (5 trusts) £m | Total £m |
|---|---|---|---|---|---|
| Operating revenue | 21,864 | 6,113 | 2,143 | 659 | 30,779 |
| Operating expenses | (20,780) | (5,771) | (1,993) | (615) | (29,159) |
| EBITDA | 1,084 | 342 | 150 | 44 | 1,620 |
| *EBITDA margin* | 5.0% | 5.6% | 7.0% | 6.6% | 5.3% |
| Net surplus /(deficit) before Impairments & Transfers | (46) | 109 | 64 | 8 | 135 |
| *Surplus margin* | -0.2% | 1.8% | 2.9% | 1.3% | 0.4% |

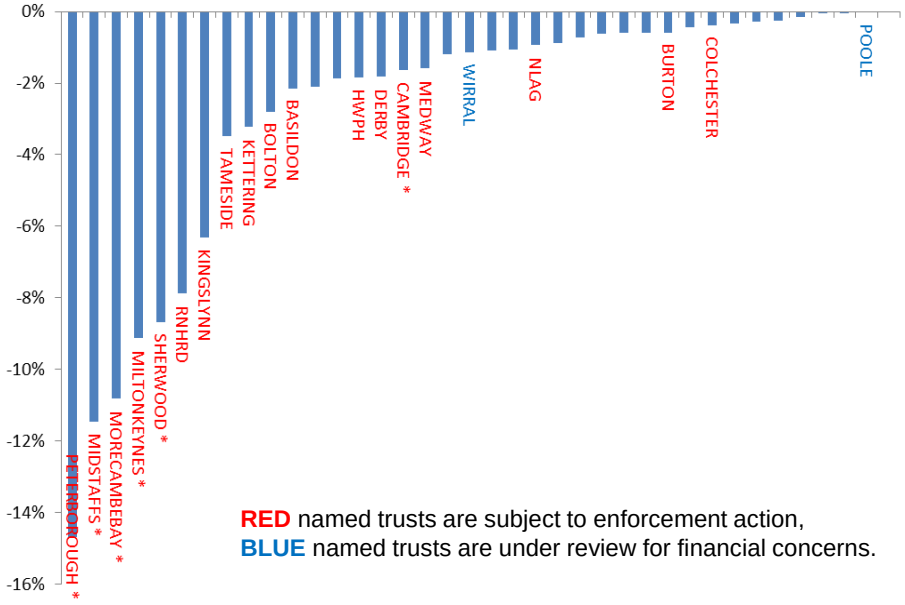
| By region | London (19 trusts) £m | Midlands (38 trusts) £m | North (55 Trusts) £m | South (35 trusts) £m | Total £m |
|---|---|---|---|---|---|
| Operating revenue | 5,575 | 6,857 | 11,681 | 6,666 | 30,779 |
| Operating expenses | (5,254) | (6,543) | (11,076) | (6,296) | (29,159) |
| EBITDA | 321 | 314 | 614 | 370 | 1,620 |
| *EBITDA margin* | 5.8% | 4.6% | 5.3% | 5.6% | 5.3% |
| Net surplus/(deficit) before Impairments & transfers | 55 | (48) | 89 | 40 | 135 |
| *Surplus margin* | 1.0% | -0.7% | 0.8% | 0.6% | 0.4% |

- The acute sector is the most financially challenged, with the highest proportion of financially troubled trusts. It has been in a net deficit position (before impairments and transfers) throughout this financial year. Small and medium sized acute trusts are the worst performing with EBITDA margins of 3.5% and 4.3%, respectively.
- Although the ambulance sector has the second highest EBITDA margin, it is the furthest behind plan and is a full 1.5% lower than Q3 last year. This is reportedly due to A&E pressures and the cost of ensuring target delivery.
- Mental health and specialist EBITDA margins are both 0.3% higher than planned, illustrating that they are better insulated from current financial pressures than the acute sector.
- The Midlands is the most financially challenged region with 14 of its 38 trusts being in deficit before impairments and transfers, including *Peterborough, Mid Staffordshire, Sherwood Forest & Milton Keynes.*
- The North includes *Bolton, Tameside & Morecambe Bay* as well as two trusts that are under review due to financial concerns.
- London has 3 trusts in deficit, although the deficits are small and it benefits from a high proportion of specialist and mental health trusts.
- The South has three trusts in financial difficulty, *Royal National Hospital For Rheumatic Diseases, Medway* and *Heatherwood & Wexham Park.*

# 4.6 ‘S’ curve

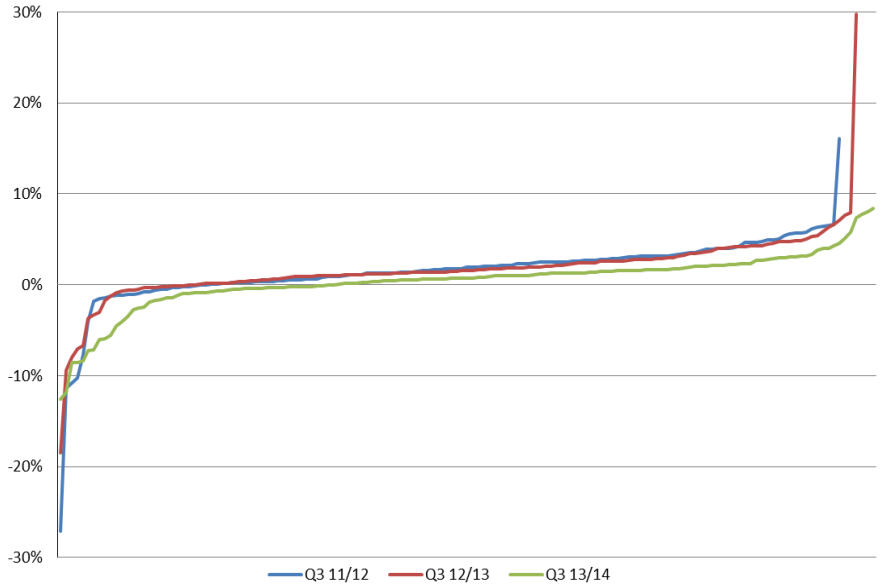
Monitor
Making the health sector work for patients

Deficit margin by foundation trust




**RED** named trusts are subject to enforcement action,
**BLUE** named trusts are under review for financial concerns.

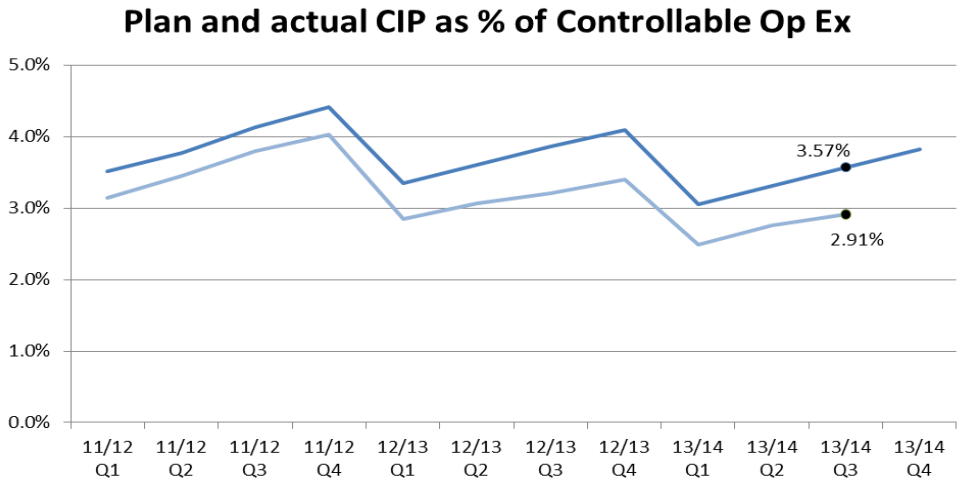
‘S’ curve over three years

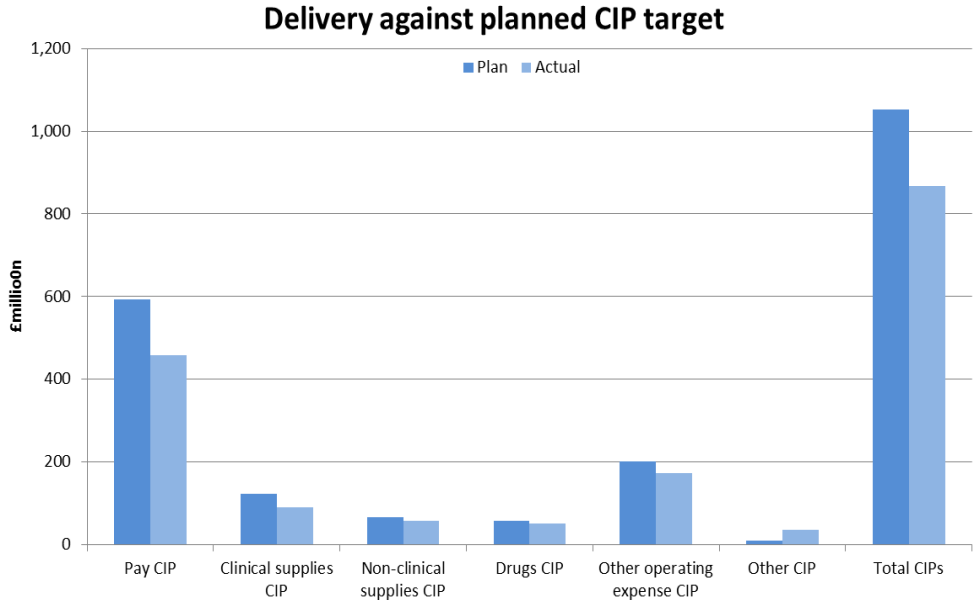



- The current number of foundation trusts in deficit before impairments and transfers by absorption is 39 compared to 41 last quarter and 21 at Q3 12/13.
- Only 24 trusts planned a deficit for this quarter and only 19 have planned full year deficits, compared to the 21 trusts that were actually in deficit at 31 March 2013. The trusts with large deficits continue to be the same challenged group, but there are also 17 trusts with individual deficit margins of under 1% this quarter. The six asterisked (*) trusts comprise over 60% of the gross value of the deficits.
- 40% (33) of acute trusts, 20% (1) of ambulance trusts, 11% (2) of specialist trusts and 7% (3) of mental health trusts are in deficit.
- 37% (14) of trusts in the Midlands region, 31% (11) in the South, 22% (12) in the North and 10% (2) in London region are in deficit.
- The ‘S’ curve chart above shows that the deficit tail is widening, as reflected in the increasing number of deficit trusts, but more worryingly has flattened across its whole length. It is this flattening of the curve, due to a general decline in surplus margins, that has the greater impact on the net surplus position for the sector, rather than the increase in the size of the gross deficit.

# 4.7 Cost improvement programmes

Monitor
Making the health sector work for patients




- Overall delivery of efficiency savings through cost improvement programmes has reduced controllable operating costs by £867m or 2.9% so far this year, compared with an £894m or 3.2% saving at this point last year. This is £185m or 18% behind the aggregate plan.
- Whilst historical delivery of cost savings has always been weighted to the latter half of the year, under-delivery in the year to date leaves £640m of savings still to be achieved. This is unlikely to be recovered by year end.
- Pay cost savings of £458m against planned savings of £593m are the major factor in under-delivery of efficiency savings in the year to date.
- Of 27 trusts surveyed about significant under-delivery of their cost improvement programmes, 36% cited unplanned activity and A&E pressures as the key cause. However, 31% attributed it to saving schemes not being fully identified at the time of the plan.
- Savings on clinical supplies of £90m against planned savings of £123m are the next largest contributor to the shortfall.
- The failure to deliver the planned level of cost improvements is compounded by the fact that 18% of them are reported as being non-recurrent, which is a higher proportion than the 6% planned. This compares with 15% non-recurrent reported in the same quarter last year. This will increase cost pressures on trusts in future years.

# 4.8 Cash flow

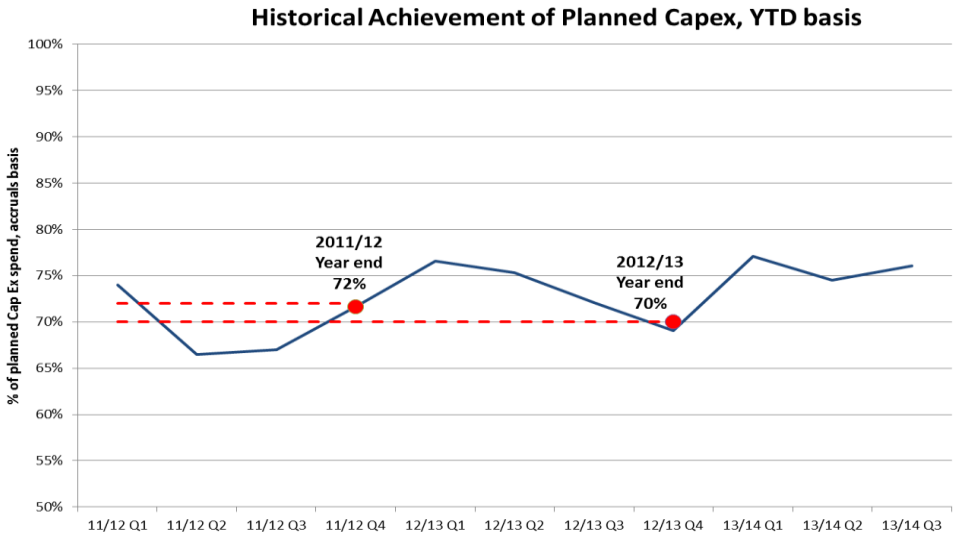
Monitor
Making the health sector work for patients

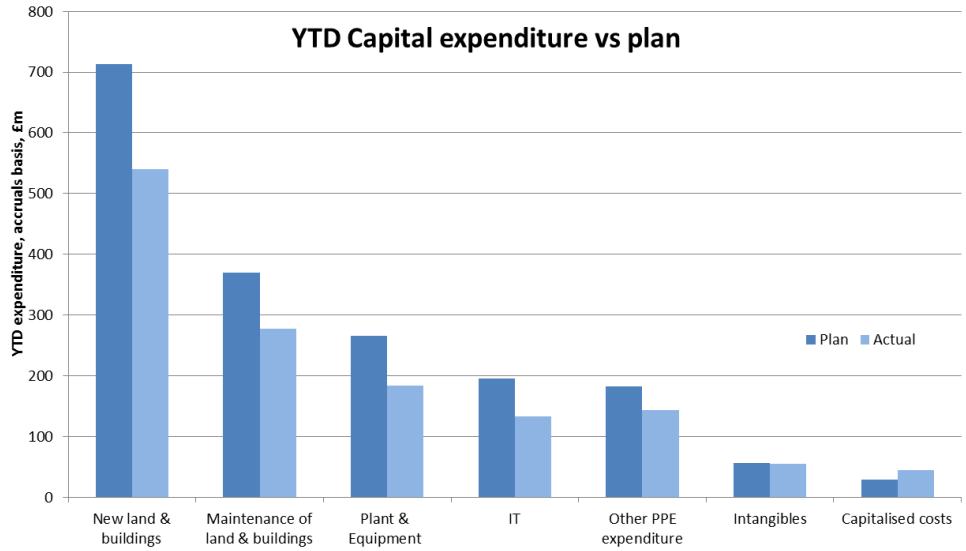
| Cash & equivalents flow | 2013-14 Q3 Actual £m | 2013-14 Q3 Plan £m | Variance £m | Variance % | 2012-13 Q3 Actual £m |
|---|---|---|---|---|---|
| **Net Surplus** | **174** | **133** | 41 | 31% | **373** |
| non operating & non cash items | 1,460 | 1,580 | (119) | -8% | 1,398 |
| working capital movements | (875) | (604) | (271) | 45% | (325) |
| **Net cash inflow/(outflow) from operating activities** | **759** | **1,109** | **(349)** | **-32%** | **1,446** |
| Capital Expenditure | (1,444) | (1,871) | 428 | -23% | (1,229) |
| Other investing activities | 44 | 13 | 31 | 244% | 19 |
| **Net cash inflow/(outflow) from investing activities** | **(1,400)** | **(1,859)** | **459** | **-25%** | **(1,211)** |
| PDC capital movements | 176 | 163 | 13 | 8% | 178 |
| PDC dividend payments | (223) | (234) | 11 | -5% | (228) |
| PFI interest and capital payments | (317) | (370) | 52 | -14% | (321) |
| Finance lease interest and capital payments | (27) | (27) | (0) | 1% | (27) |
| Loans drawn / (repaid), net | 277 | 504 | (227) | -45% | 32 |
| Other financing activities | (32) | 2 | (34) | -1874% | (17) |
| **Net cash inflow/(outflow) from financing** | **(147)** | **38** | **(185)** | **-486%** | **(383)** |
| **Net cash inflow/(outflow)** | **(787)** | **(712)** | (75) | 11% | **(148)** |
| Opening Cash & Equivalents | 4,513 | 4,513 | | | **3,986** |
| Cash & Equivalents in new FTs at authorisation | 21 | 21 | (0) | | 54 |
| **Closing Cash & Equivalents** | **3,747** | **3,822** | **(75)** | **-2%** | **3,892** |

- At 31 December 2013, cash was £100m lower than the previous quarter.
- Year to date cash is lower than planned, primarily because the cash inflow from operations was £349m less than planned and £277m of planned loans were not drawn down. This is despite capital expenditure being £428m below plan.
- The £349m negative variance on operational cash inflows reflects the under-delivery of EBITDA and a £271m increase in working capital. As explained on slide 4.10, this is principally due to invoicing delays and commissioners being slow in making payments, resulting in a marked increase in the level of uncollected debts, partly compensated by an increase in accruals and deferred income.
- Loans drawn down by the sector are £227m less than planned, largely due to the delay of the PFI refinancing at *Northumbria*. The rest of the variance sits in a number of trusts and is often associated with capital project delays.
- Of the £176m PDC capital movement, £86m is funding support for financially troubled trusts *Bolton*, *Heatherwood & Wexham Park*, *King's Lynn*, *Mid Staffordshire*, *Milton Keynes*, *Morecambe Bay, Peterborough* and *Royal National Hospital for Rheumatic Diseases* . A further £26m is in *King's* and relates to its take over of the *Princess Royal University Hospital*. The rest is made up of smaller amounts across 36 trusts and is for centrally funded capital schemes.

# 4.9 Capital expenditure

Monitor
Making the health sector work for patients




- Capital expenditure to 31 December 2013 was £1,394m against a plan of £1,833m reported on an accruals basis. This represents 76% of the plan, compared with 74% last quarter and 77% at Q1. At the same point last year, trusts had spent 72% of their capital plans.
- Actual capital expenditure so far this year significantly exceeds the £885m depreciation and amortisation charge, suggesting that aggregate investment levels are adequate across the sector.
- Only large acute trusts have achieved their planned capital expenditure.
- Mental health trusts are reporting the highest underspend as a sector at 29% (36% at Q2), while the Midlands has the largest regional underspend at 27% (36% at Q2).
- The graph opposite illustrates that the underspend is also spread across all types of capital investment, with intangibles (software licences etc.) being the only type of expenditure that is very close to planned levels. This graph also demonstrates that a very high proportion of capital expenditure is on land & buildings compared with IT and equipment.

# 4.10 Balance sheet

Monitor
Making the health sector work for patients

| Financial Position | 31 Dec 13 Actual £m | 31 Dec 13 Plan £m | Variance £m | Variance % | 31 Mar 13 Actual £m |
|---|---|---|---|---|---|
| Property, Plant & equipment | 19,413 | 19,939 | (526) | -3% | 18,219 |
| PFI assets | 3,789 | 3,354 | 435 | 13% | 3,354 |
| Other non-current assets | 584 | 737 | (152) | -21% | 516 |
| **Total non-current assets** | **23,786** | **24,029** | (243) | -1% | **22,089** |
| Inventories | 507 | 473 | 33 | 7% | 461 |
| Trade & other receivables | 1,792 | 1,276 | 515 | 40% | 1,223 |
| Accrued revenue | 617 | 391 | 226 | 58% | 261 |
| Prepayments | 410 | 326 | 84 | 26% | 254 |
| Cash & Equivalents | 3,747 | 3,822 | (76) | -2% | 4,513 |
| Other current assets | 137 | 95 | 42 | 44% | 152 |
| **Total current assets** | **7,209** | **6,384** | 825 | 13% | **6,864** |
| Borrowings | (105) | (123) | 18 | -15% | (89) |
| Trade & other payables | (2,025) | (1,916) | (109) | 6% | (2,133) |
| Accruals | (1,674) | (1,367) | (307) | 22% | (1,441) |
| Deferred income | (586) | (440) | (146) | 33% | (504) |
| Provisions | (258) | (220) | (38) | 18% | (339) |
| Other current liabilities | (775) | (742) | (34) | 5% | (569) |
| **Total current liabilities** | **(5,423)** | **(4,807)** | (616) | 13% | **(5,075)** |
| **Net current assets** | **1,786** | **1,577** | 209 | 13% | **1,789** |
| Borrowings | (1,381) | (1,626) | 245 | -15% | (1,124) |
| Deferred income | (152) | (153) | 1 | -1% | (128) |
| Provisions | (258) | (250) | (8) | 3% | (256) |
| Leases PFI | (4,292) | (4,152) | (139) | 3% | (4,194) |
| Other non-current liabilities | (190) | (199) | 9 | -5% | (200) |
| **Total non-current liabilities** | **(6,273)** | **(6,381)** | 108 | -2% | **(5,902)** |
| **Total funds employed** | **19,299** | **19,226** | 73 | - | **17,976** |
| Retained earnings | 1,581 | 1,516 | 65 | 4% | 972 |
| Public Dividend Capital | 13,245 | 13,288 | (43) | - | 12,727 |
| Revaluation reserve | 4,379 | 4,323 | 56 | 1% | 4,187 |
| Other reserves | 94 | 99 | (5) | -5% | 90 |
| **Total taxpayers' equity** | **19,299** | **19,226** | 73 | - | **17,976** |

- Of the £1,697m increase in the value of non-current assets since 31 March 2013, c. £400m is due to new authorisations, c. £600m is the difference between capital spend and depreciation and the remainder is largely attributable to the transfer of assets from dissolved NHS bodies (of which c. £100m are PFI assets) into 44 foundation trusts. These transfers also account for most of the increase in the value of retained earnings and the revaluation reserve.
- Trade receivables and accrued revenue (unbilled work) combined are £742m over plan, and receivable days (the time it takes to collect debts) have increased to 15.7 (Q2 14.3 days, Q1 12.2 days) against 11.5 days in the aggregate plan. This is consistent with foundation trusts reporting delays in payments from CCGs as well as NHS England due to issues over the disclosure of patient identifiable data as well as uncertainty over who is responsible for some elements of commissioning.
- Despite this, the bad debt provision within receivables, at £179m is only £12m higher than last quarter and £17m more than planned, which demonstrates that foundation trusts have not changed their expectations as to the collectability of debts. This appears optimistic, given that in the month 9 agreement of balances exercise foundation trusts reported a significantly higher receivable balance than the corresponding payable reported by commissioners. This net receivable balance (c.£200m) is much higher than previous years when it fluctuated between a small net receivable and small net payable.
- Payable days (the time taken to pay debts) at 56.5 is slightly shorter than at Q2 (57.1 days), but longer than the planned 55.7 days and 55.3 days at last year end. However, foundation trusts are not significantly increasing the time taken to pay suppliers despite the delays in collecting payments from commissioners.

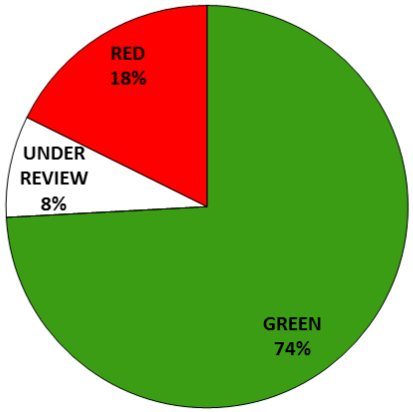
Monitor
Making the health sector work for patients

# 5.0 Regulatory performance

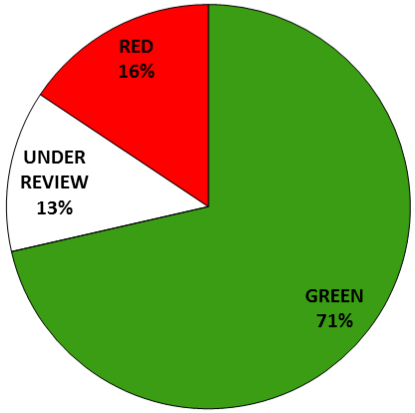
# 5.1 Governance risk ratings

Monitor
Making the health sector work for patients

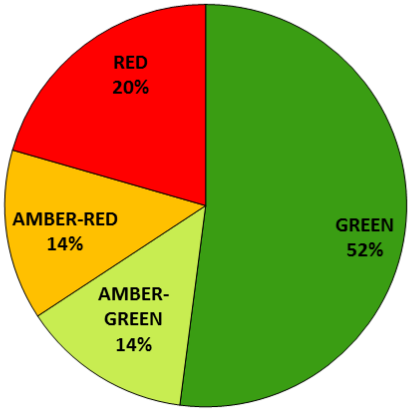
**RAF GRR: Q3 13/14**




**RAF GRR: Q2 13/14**



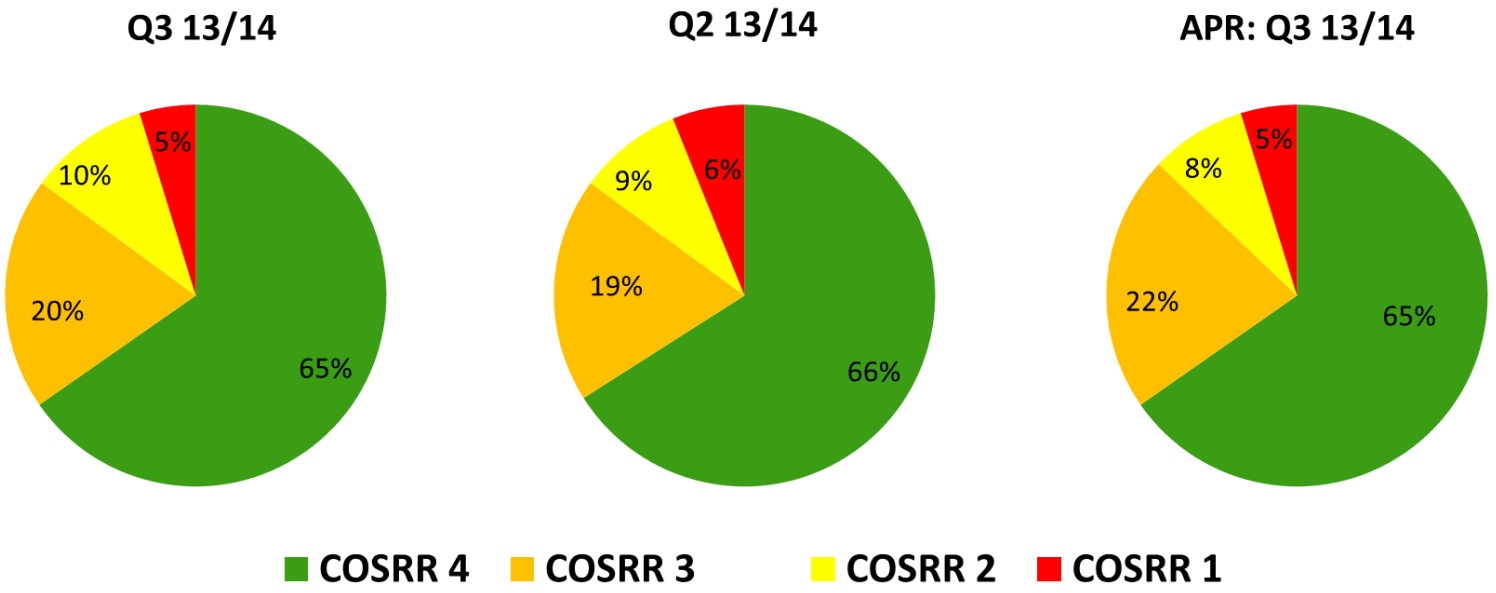

**CF GRR: Q1 13/14**




- From 1 October 2013 the *Risk Assessment Framework (RAF)* replaced the *Compliance Framework* as our approach to overseeing NHS foundation trusts' compliance with the governance and continuity of services requirement of their provider licence. One of the consequences of this has been a change to how we determine governance risk ratings.
- Under the *Compliance Framework,* trusts being formally investigated for potential breaches of their provider licence were rated red, whereas under the *RAF* only trusts that are subject to enforcement action are.
- Under the *RAF*, trusts are assigned a green rating if there are no material governance concerns evident (109 FTs at Q3 13/14). Where we identify potential material causes for concern, we replace the green rating with a description of the issue and the steps we are taking to address it. Trusts falling into this group have been described as "under review" in the above chart (12 FTs at Q3 13/14). Details of this group of trusts can be found on slide 5.5.
- Acute trusts have the poorest governance risk profile with 27% currently being red rated and 88% of open investigations being at acute trusts, despite acute trusts representing only 56% of the sector.
- The Midlands has the poorest regional governance risk profile with 34% of trusts in the region being red rated.

# 5.2 Continuity of Services risk rating

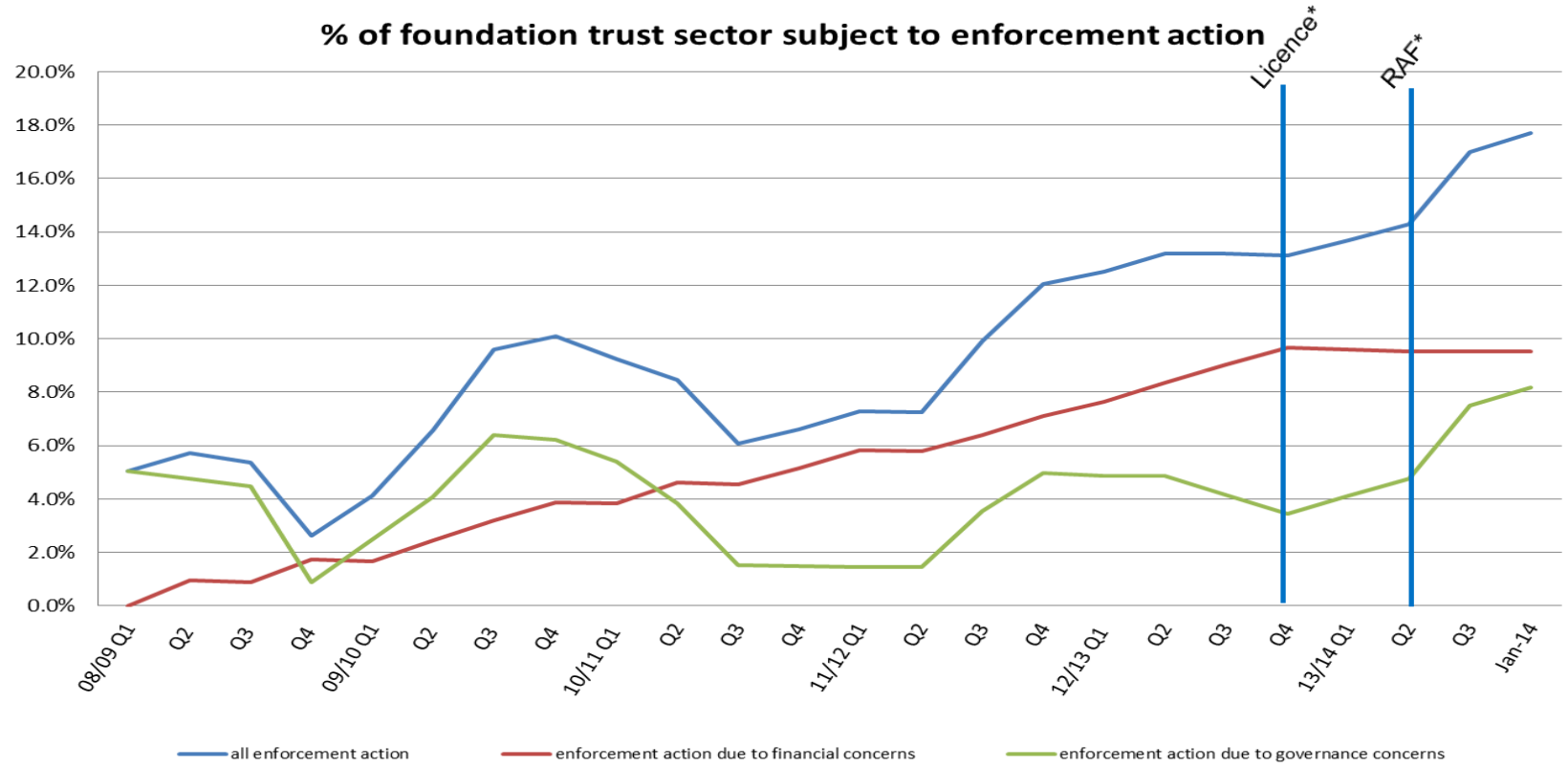
Monitor
Making the health sector work for patients




- Under the *Risk Assessment Framework*, which came into effect on 1 October 2013, the financial risk rating (FRR) has been replaced by the continuity of services risk rating (COSRR). It is therefore being implemented as a regulatory tool at Q3 13/14 for the first time.
- While the FRR was intended to identify breaches of a trust's terms of authorisation on financial grounds, the continuity of services risk rating is intended to identify the level of risk to the on-going availability of key services.
- There are four categories of continuity of services risk rating (COSRR), where 1 represents the most serious risk and 4 the least risk. However, unlike the FRR, a low continuity of services risk rating does not necessarily indicate a breach of the provider licence. It rather reflects our degree of concern about a provider's finances and will help determine the frequency with which we monitor the trust.

# 5.3 History of enforcement action

Monitor
Making the health sector work for patients




- The number of foundation trusts subject to enforcement action has risen over the last few years due to a gradual increase in trusts found in breach of their terms of authorisation / provider licence due to financial issues, though there has been little change over 13/14 to date.
- There has also been a fluctuating number of trusts subject to formal enforcement action due to governance issues during this period, partly as a result of quality problems identified by the CQC and partly as a result of trusts' failure to address target performance issues.

* From 1 April 2013 Terms of Authorisation were replaced by the Provider Licence and, from 1 October 2013, the *Risk Assessment Framework* (RAF) replaced the *Compliance Framework*.

# 5.4 Current enforcement action

Monitor
Making the health sector work for patients

| Enforcement action applied in Q3 2013/14 |
| --- |
| 4 |
| Aintree<br>Colchester<br>Heart of England<br>Calderstones |

| Subject to enforcement action prior to Q3 2013/14 | | |
| --- | --- | --- |
| Basildon & Thurrock<br>Bolton<br>Burton<br>Cambridge University<br>Derby<br>Dorset Health<br>Heatherwood & Wexham Park<br>Kettering<br>King's Lynn<br>Medway<br>Mid Staffordshire | 21 | Milton Keynes<br>Morecambe Bay<br>North Lincolnshire & Goole<br>Peterborough & Stamford<br>RNHRD<br>Sherwood<br>Southend<br>Tameside<br>Rotherham<br>Stockport |

**During Q3 2013/14**

- In October 2013, *Aintree* was found to be in breach of its licence and the trust has given undertakings to address governance concerns arising from failure of its annual *C. difficile* target.
- In November 2013, *Colchester* was found to be in breach of its licence as a result of serious concerns highlighted during a CQC inspection, regarding the quality of some services for cancer patients at the trust. Given the seriousness of the concerns, we have applied conditions to the trust's licence and have put it in special measures.
- In December 2013, *Heart of England* was found to be in breach of its licence as it failed to meet the national targets for treating patients in Accident and Emergency within four hours over the past year.
- In December 2013, *Calderstones* was found to be in breach of its licence as it failed to meet the national targets for treating patients in Accident and Emergency within four hours over the past year.

**Since Q3 2013/14**

- In January 2014, *Cumbria Partnership* was found to be in breach of its licence due to the inadequacy of the trust's response to quality issues and the appropriateness of the Board's oversight.

# 5.5 Foundation trusts under review

Monitor
Making the health sector work for patients

**Background**

- Under the *Risk Assessment Framework (RAF)*, where we identify potential material causes for concern at a trust, its governance rating is placed under review and we publish a description of the issue and the steps we are taking to address it in its place. There are five potential triggers of such concerns, as seen in the table opposite. Once a concern has been identified, there may be a period during which we gather additional evidence before deciding whether or not to open a formal investigation. Therefore, these trusts fall into two groups, those which are being considered for investigation and those with an open investigation.

| RAF trigger | Considering investigation | Open investigation | Total |
|---|---|---|---|
| CQC information | - | 2 | 2 |
| Access and outcomes metrics | 2 | 3 | 5 |
| Third party reports | - | - | - |
| Quality governance indicators | - | - | - |
| Financial risk | 2 | 3 | 5 |
| Multiple factors | - | - | - |
| **Total** | **4** | **8** | **12** |

**Investigations**

- Two of the open investigations were triggered by Care Quality Commission (CQC) concerns following the inspection of hospitals at *Southern Health* and *Bradford.*
- Three trusts are being formally investigated wholly or in part due to multiple breaches of the same target. These are *Royal Berkshire* (A&E target), *South Tees* (waiting time targets) and *Lancaster Teaching* (*C. difficile* target).
- Three investigations have been triggered by financial concerns at *Poole, Wirral* and *South Manchester.*
- Investigations have been closed at 2 trusts during the quarter, *Robert Jones & Agnes Hunt* and *South* Warwickshire and at 2 trusts since the end of the quarter, *Tees Esk and Wear*, and *Southampton*.

Detailed reasons for all investigations can be found through the NHS foundation trust directory on our website.

**Consideration for investigation**:

- Currently, further evidence is being gathered in relation to four trusts to determine whether a formal investigation should be opened into a potential breach of the conditions of their provider licence.

# 5.6 Other regulatory action

Monitor
Making the health sector work for patients

**Special measures**

- In July 2013, six foundation trusts and five NHS trusts were placed in special measures as a result of the Keogh review into hospital mortality rates. All six foundation trusts are now subject to enforcement action.
- In October 2013, *The Queen Elizabeth Hospital King's Lynn*, which was already subject to enforcement action under its licence, was also put in Special Measures due to failings in patient care and hospital governance.
- In November 2013, *Colchester*, which was also identified in the Keogh review, was placed in special measures as a result of serious concerns highlighted during a CQC inspection, regarding the quality of some services for cancer patients at the trust. In January 2014 Monitor appointed an Improvement Director to hold the trust accountable in improving the standard of care provided to patients.

**Special administration**

- We appointed a contingency planning team at *Mid Staffordshire* in September 2012, which found the trust to be clinically and financially unsustainable, leading to the appointment of the trust special administrator (TSA) in April 2013. The TSA commenced a public consultation on a proposed solution for the trust at the end of June 2013. An extension to the special administration process was confirmed in October 2013 to allow commissioners and providers time to reach an agreement on the future funding of essential services.
- In January 2014 we agreed the TSA's proposed dissolution of *Mid Staffordshire NHS Foundation Trust* and passed the administrators' recommendations to the Secretary of State. We are satisfied the package of measures put forward by the TSA is the most appropriate solution for the local health economy that can be found in the circumstances. We are awaiting the Secretary of State's decision which is expected no later than 26 February 2014.

**Other**

- In November 2013, we used our powers to impose a new condition on the licence of *Medway*, which was already in special measures. This condition means that Monitor can ensure the trust has the appropriate leadership to deliver the necessary improvements. In February 2014, we invoked this condition to strengthen leadership at the trust by requiring it to appoint a new Chairman and Chief Executive.
- In January 2014, *Heatherwood &Wexham Park* agreed a package of measures to improve the standard of care provided to patients, following receipt of seven warning notices from the CQC for breaching essential standards. We appointed an Improvement Director in February 2014 to hold the trust accountable on improving the standard of care provided to patients and to address the concerns identified by the CQC.

# 5.7 CQC warning notices

Monitor
Making the health sector work for patients

| CQC WARNING NOTICES OUTSTANDING DURING Q3 2013/14 | | | |
|---|---|---|---|
| | **Foundation trust** | **Reason** | **Cleared/outstanding** |
| **Sep-13** | Sherwood | Concerns related to the care and welfare of people who use services, meeting nutritional needs, staffing, assessing and monitoring the quality of care and complaints. | Outstanding |
| **Oct-13** | Dorset County | Concerns that medicines were not always being securely stored. | Cleared |
| **Oct-13** | King's Lynn | 4 warning notices issued. Concerns relating to: insufficient numbers of appropriately qualified staff; inadequate arrangements to protect against abuse; lack of appropriate support of employees to allow them to deliver the appropriate standard of care; and assessment and monitoring of the quality care. | Outstanding |
| **Oct-13** | Dorset Healthcare | Concerns that patients were not being protected from the risks of unsafe or inappropriate care because records were not always accurate or complete. | Cleared |
| **Oct-13** | Medway | Concerns relating to the safety and welfare of women using maternity and midwifery services at Medway Maritime Hospital and failure to meet national regulations in three specific areas: staffing, supporting workers, and assessing and monitoring the quality of care. | Cleared |
| **Nov-13** | Cumbria Partnership | Concerns over patients not receiving safe and appropriate care, and inadequate numbers of qualified, skilled and experienced staff to meet people's needs. | Cleared |
| **Nov-13** | Southern Health | 6 warning notices issued: concerns over the care and welfare of people who use services, cleanliness and infection control, safety and the suitability of premises, safety, availability and suitability of equipment, assessing and monitoring the quality of care. | 3 outstanding, 3 cleared |
| **Dec-13** | Aintree | Concerns relating to the assessment and monitoring of the quality of care | Outstanding |
| **Dec-13** | Heart of England | Concerns over the failure to protect patients against inappropriate or unsafe care and treatment as a result of ineffective systems at the trust. | Outstanding |

- 9 CQC warning notices have been issued since 31 December 2013 against:
  - Heatherwood & Wexham Park (7 warning notices): in January 2014 due to concerns over appropriate patient privacy, dignity and independence, care and welfare of people who use services, cleanliness and infection control, appropriate staffing levels, assessing and monitoring the quality of care and record keeping.
  - Southern Health: in January 2014, due to concerns over the care and welfare of people who use services.
  - Bradford: in January 2014, due to concerns relating to insufficient numbers of appropriately qualified staff.

# 6.0 Glossary

Monitor
Making the health sector work for patients

| | |
|---|---|
| **A&E** | Accident and Emergency |
| **APR** | Review of foundation trust annual plans conducted by Monitor |
| **CCG** | Clinical Commissioning Group |
| **CoSRR** | Continuity of Services Risk Rating, applies after 30 September 2013 |
| **CIP** | Cost improvement plan |
| **CPT** | Contingency Planning Team |
| **CQC** | Care Quality Commission |
| **DH** | Department of Health |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **Exceptional items** | Income or costs that are one-off in nature and do not therefore reflect underlying financial performance, i.e. asset impairments, restructuring costs and gains/ losses on asset transfers |
| **FRR** | Financial Risk Rating, applied until 30 September 2013 |
| **FT** | Foundation trust |
| **GRR** | Governance Risk Rating |
| **HMT** | Her Majesty's Treasury |
| **PPE** | Property, plant and equipment . |