

**To:** Board

**For meeting on:** 26 November 2014

**Agenda item:**

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**Report on:** Quarterly report on the performance of the NHS foundation trust sector: 6 months ended 30 September 2014

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## Summary

1. The attached paper sets out our findings from a review of the Q2 2014/15 performance of all 147 NHS foundation trusts (FTs).

## Overview

2. NHS foundation trusts (FTs) continue to experience significant financial and operational pressures. This has led to a further deterioration in the overall FT sector performance in Q2 2014/15:
  - The sustained high number of patients attending A&E and in particular being admitted for inpatient treatment, coupled with a focus on clearing the waiting list backlog, hit trusts' operational performance during Q2. FTs have continued to underperform against a number of key operational targets during the quarter, including A&E 4-hour waits, the 18-week waiting time target for admitted patients, and the cancer 62-day waits target.
  - The FT sector's overall financial performance also deteriorated further with a net deficit of £254m at Q2, which was £195m behind plan. This further decline was largely the result of FTs' heavy reliance on contract and agency staff while under-delivering against their cost improvement plans. In addition, a shortfall in expected large donations also further worsened the financial position of the FT sector. Based on the current performance, the FT sector is forecasting a year-end net deficit of £271m.
3. The detailed analysis is in the annex to this paper.

## **Operational performance**

### *A&E*

4. During Q2 2014/15 the number of patients attending foundation trust A&E departments remained high at 2.7m which was c. 124,000 more than the same period last year. A&E performance was affected by sustained demand and capacity pressures due to a rise in A&E patients requiring emergency admissions and bed shortages due to delayed discharges and delayed transfers of care. As a result, the FTs in aggregate narrowly missed the standard of 95% for the third quarter in a row with a performance of 94.9%.
5. The overall underperformance was largely due to the target being breached by type 1 major A&E departments. As highlighted in our previous report, FTs have a disproportionate share of patients attending major A&E departments.
6. Recent data published by NHS England suggests that, despite operational resilience funding being distributed in October to improve capacity, FT A&E performance has remained below 95% target.

### *Elective care*

7. The FT sector again failed to achieve the 90% Referral to Treatment (RTT) target for admitted patients in Q2 2014/15 with only 88.1% of patients starting their inpatient treatment in 18 weeks. This was largely due to FTs responding to the national initiative of a “managed breach” to clear the waiting list backlog. In addition, the year on year growth in activity (4%) is lagging behind the growth in referrals (6%), creating further demand pressures within the system.
8. Despite the operational resilience funding which allowed trusts to invest in additional capacity, the performance against the admitted waiting time target remains a major concern, as the median waiting time and the number of patients waiting longer than 18 weeks have both increased. However, FTs have achieved a reduction in those waiting over 52 weeks.
9. While FTs continue to achieve the waiting time target for patients on non-admitted and incomplete pathways, there has been a sharp decline in the performance against the 95% RTT non-admitted target with performance at Q2 being only 0.5% above the standard.

### *Cancer care*

10. The number of patients with suspected cancer being referred for treatment reached 19,000 in Q2 2014/15, compared to 18,200 in previous quarter and 17,900 in Q2 2013/14. FTs continued to meet cancer waiting time targets for screening services and 2-week waits for urgent GP referrals. However, the FT sector as a whole breached the 85% target for 62-day wait from GP referrals for the second quarter in a row, with a performance of 84.1%. 32 trusts failed to meet the target this quarter, compared to 12 at Q2 2013/14.
11. The system-wide demand pressures continued to affect trusts’ ability to manage their cancer treatment pathways effectively. Further capacity problems in relation to complex diagnostic pathways and late referrals between trusts also contributed to the underperformance during the quarter.

### *C. difficile*

12. There were 812 reported *C. difficile* cases at Q2 2014/15 which was 65 cases more than Q2 last year. Of these, 266 (or 33%) of the reported cases were due to lapses in care, a reduction of 13 cases when compared to the previous quarter.

## **Financial performance**

### *Surplus / deficit*

13. The FT sector's finances continued to be under considerable strain. FTs reported an overall deficit of £254m at Q2 2014/15 which was £195m behind plan, despite the number of trusts in deficit dropping from 86 in the previous quarter to 81 this quarter.
14. The acute sector continued to be most financially challenged. Close to 80% of the acute trusts were in deficit contributing to over 90% of the total gross deficit of £396m.
15. In addition, a shortfall in incomes from donations, and a further deterioration in the financial performance at *King's College Hospital NHS Foundation Trust* (£30.7m below plan) further contributed to the decline in FTs' financial performance. As highlighted in our previous report, the underperformance at *King's* is due to operational pressures at the *Princess Royal University Hospital*.
16. Based on the current performance, the FT sector is projecting a year end net deficit of £271m. Although the current projection is £251m worse than plan, the delivery against this latest projection is very challenging and will require FTs to manage their use of agency staff effectively and deliver significant cost savings exceeding the planned Cost Improvement Programmes (CIPs) during winter months.

### *EBITDA*

17. EBITDA margin improved slightly from 3.4% at Q1 to 3.7% at Q2 due to the build-up of efficiency savings and a rise in revenue due to extra activities. However, this was still 0.8% below plan. The planned trajectory for the remainder of the year still looks ambitious, as the gap between the actual and planned EBITDA margin increased from 0.6% at Q1 to 0.8% this quarter.

### *Performance drivers*

18. Expenditure continued to grow faster (1.6%) than revenue (0.8%) during the quarter which contributed to the further decline in FT finances. Two main drivers identified in the previous quarter (i.e. high usage of contract and agency staff and a continued decline in cost savings) remained the key contributing factors to the expenditure growth.
19. In response to sustained demand and quality pressures, spend on contract and agency staff in Q2 2014/15 was £453m above plan and c. £200m worse than the same period last year. This has an adverse impact on trusts' ability to deliver their in-year cost savings, as pay costs represents over 50% of the total CIPs.
20. In Q2, the FT sector delivered £492m (or 2.4%) cost savings, which was £126m below plan. Nearly one fifth of the savings were achieved through non-recurrent schemes, which was 12% above plan. The under delivery of CIPs and increased reliance on non-recurrent schemes reflected weaknesses in FTs' planning and execution of their cost saving programmes.
21. Although activity saw a year on year growth, the growth in revenue (0.8%) at this quarter was 0.6% below previous Q2. The slow-down in revenue growth further contributed to the decline in the FT sector's financial position.

### *Cash and capex*

22. Despite the FT sector having a significant deficit, by managing working capital and reducing planned capital expenditure, the cash retained by FTs at the end of the quarter was £268m or 7.5% above plan. The cash held (£3.8bn) at Q2 2014/15 was sufficient for 34 days operation. However, allowing for short term liabilities, net current assets are only £1.6bn, equivalent to 14 days' operations.
23. FTs are currently under-spending against their capital plans by 29%. However, actual spend was 8% higher than Q2 last year, indicating that FTs continued to invest to improve their patient care despite the pressure on trust finances. In addition, capex is considerably more than depreciation and is sufficient to cover maintenance and other essential capex.

### **Regulatory actions**

24. In response to the financial and operational pressures faced by FTs, we have taken a number of steps to support them in addressing the risks identified. In particular, our regulatory actions and other engagements with FTs are focussed on addressing quality, financial and operational issues that could have an adverse impact on services for patients.
25. During Q2 2014/15, one trust returned to compliance having improved its governance, leaving 27 trusts still subject to enforcement actions at the end of the quarter. Since then, two more trusts (Mid Staffordshire NHS Foundation Trust and Heatherwood and Wexham Park Hospitals NHS Foundation Trust) have been taken over by other trusts. These acquisitions will enable better delivery of services for patients, better governance and improve their financial sustainability.
26. Investigations are in progress at 11 trusts where major concerns were identified. Further evidence is being gathered at seven trusts to determine whether a formal investigation should be opened.
27. We continue to monitor trust performance and review our regulatory responses to decide whether further actions are required.

### **Making a difference for patients:**

*Monitor's mission is to make the health sector work better for patients. By reviewing foundation trust plans we provide insight into the future performance of the foundation trust sector. This informs our regulation of individual foundation trusts by highlighting areas of risk that we follow up in order to identify and resolve problems that may affect patients earlier than would be the case without this insight. Our reports on the sector also inform our other statutory functions and our thought leadership work.*

### **Public Sector Equality Duty:**

*Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In drafting this report consideration has been given to the impact that the issues dealt with might have on these requirements and on the nine protected groups identified by this Act. It is anticipated that the issues dealt with in this paper are not likely to have any particular impact upon the requirements of or the protected groups identified by the Act because this paper is primarily provided for information rather than for decision.*

### **Exempt information:**

*None of this report is exempt under the Freedom of Information Act 2000.*