

To: The Board

For meeting on: 25 February 2015

Agenda item: 4

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Report on: Quarterly report on the performance of the NHS foundation trust sector: 9 months ended 31 December 2014

Summary

1. The attached paper sets out our findings from a review of the Q3 2014/15 performance of the 149 NHS foundation trusts (NHSFTs) operating during this period which includes three newly licensed foundation trusts and the final period of operation for *Mid Staffordshire* for part of the quarter.¹

Overview

2. Sustained financial and operational challenges faced by the NHSFT sector have resulted in a further decline in the overall performance at Q3 2014/15:
 - Due to growing demand pressures and capacity constraints, NHSFTs have become less operationally resilient during the current winter. The overall sector performance against key operational targets continued to worsen during the quarter. In particular, the sector failed to meet the standards set for accident and emergency (A&E), cancer waiting time and referral to treatment (RTT) for admitted patients for the third quarter in a row. For the first time, NHSFT ambulance trusts have also breached the three key response time targets relating to Category A calls.
 - The size of the net deficit reported by NHSFTs in aggregate has grown to £321m at Q3 2014/15, as growth in operating costs continued to exceed the growth in revenue. The under-delivery of cost improvement programmes (CIPs) also had an adverse impact on the sector's financial performance. Based on the current performance, the NHSFT sector is now projecting a year-end deficit of £375m.

¹ All figures in this paper are based on the total operational and financial performance of foundation trusts during the year to date or the latest quarter as indicated. Transactions and newly licensed foundation trusts mean that the number of foundation trusts and the size of the sector have not been constant over the year to date and a full note on the basis of preparation of this report is included in the appendix.

3. The detailed analysis is in the annex to this paper.

Operational performance

Emergency care

4. The NHSFT sector failed to meet the 95% A&E 4-hour waiting time target for the fourth quarter in a row, with a performance of 92.4% during Q3 2014/15 (compared to 95.2% in Q3 2013/14). NHSFTs stated that the decline in A&E performance was due in part to patients' lack of rapid access to GPs, and community and social care capacities, which resulted in rising demand and delayed transfers of care (DToCs).
5. In Q3 2014/15, 2.68m patients attended NHSFT A&E departments, 8% higher than the same period last year. Close to 570,000 A&E patients required emergency admissions during the quarter, which was 40,000 more than Q3 2013/14. Rising demand combined with high levels of staff vacancies especially in A&E doctors and nurses have resulted in NHSFT A&E departments being under significant stress. The system as a whole has been less operationally resilient in the face of winter pressures.
6. The other contributing factor to the current performance was a shortage in emergency beds relative to the increased level of emergency admissions. The winter daily situation reports indicated that the bed occupancy rate at NHSFTs was consistently above 94% in November and December compared to 92% for the same period last year. This was largely driven by DToCs, which were 20% above the numbers for the same period last year, beds occupied due to Norovirus and an early spike in patients with respiratory illness this year.
7. Monitor, the NHS Trust Development Authority (NHS TDA) and NHS England, operating as a national tripartite, have implemented a number of programmes to tackle the issue, and NHSFTs have also taken actions locally to improve patient flows. Recent performance data published by NHS England suggests that A&E performance has now started to stabilise: performance across the sector at the week ending 8 February 2015 was 92.8%.
8. Winter pressures also meant a rise in demand for ambulances. In Q3 2014/15, NHSFT ambulance trusts responded to 933,000 calls (105,000 or 13% more than during Q3 2013/14). Staff shortages especially in paramedics, coupled with delays at hospitals due to increased pressures on A&E departments, had a significant impact on ambulance trusts' performance against response time targets. This has resulted in NHSFT ambulance trusts missing all three key targets against Category A (that is, life threatening) calls for the first time.

Elective care

9. Work at both national and local levels to ease the capacity constraints in elective care seems to have had a positive impact. Although the performance of 89.63% at Q3 2014/15 was still below the 90% target for admitted referral to treatment (RTT), it was an improvement on the previous quarter (88.1%).

10. The year-on-year growth in elective activities was 6.5% in Q3 2014/15 while the growth in waiting lists has slowed down to 2.5%. Demand pressures are still present, as the number of patients waiting longer than 18 weeks is 17% higher than last year. Trusts focusing on clearing the waiting list backlog are likely to breach the reported RTT standards. However, there are signs that performance may have started to recover, as median waiting times for patients on admitted and non-admitted pathways now stand at 8.8 and 5.3 weeks respectively, compared to 9.5 and 6 weeks in September 2014.

Cancer care

11. Cancer waiting time standards of 62 days for screening services, 31 days for first treatment and 2 weeks for referrals for suspected cancer and exhibited breast symptoms have been consistently achieved by the NHSFT sector as a whole. However, there has been a continued decline in FTs' performance against the cancer 62 day GP referrals standard which tracks the timeliness of treatment along the whole of the patient pathway. For the third consecutive quarter, the sector performed below the 85% target, with a performance of 84.45% at Q3 2014/15.
12. Despite the number of GP cancer referrals falling from 19,000 in Q2 2014/15 to 18,500 this quarter, the average waiting time for patients referred by GPs remained around 43 days. NHSFTs continued to cite difficulties in managing complex diagnostic pathways and inadequate elective capacity as the main reasons for breaches. Two out of three NHSFTs currently failing the target have indicated that they will return to compliance in the next six months.

C. difficile

13. NHSFTs reported 765 *C. difficile* cases at Q3 2014/15. This was 47 cases fewer than Q3 last year.

Financial performance

Overall performance

14. NHSFTs' financial performance in aggregate continued to decline. The sector reported an overall deficit of £321m at Q3 2014/15, which was £267m behind plan and £67m worse than the previous quarter. This was made up of a combined gross deficit of £530m at 78 trusts and £209m surplus at 71 trusts.
15. Despite a slight quarter on quarter improvement, earnings before interest, tax, depreciation and amortisation (EBITDA) margin at 3.8% at Q3 2014/15 remained below the 5% threshold, which is the level that Monitor has historically regarded as the minimum for long term financial sustainability.
16. As the gap between actual performance and plan continues to grow, the year end forecast for the NHSFT sector has been revised down to a net deficit of £375m. This may well be understated given operational pressures and the fact that previous in year forecasts by NHSFTs have been optimistic.

Acute trusts

17. Acute trusts remain the only part of the NHSFT sector with a significant overall deficit, reflecting the tough financial and operational environment these providers currently operate in. Sector performance was particularly affected by:
- A year to date adverse performance variance of £31m at *King's College Hospital NHS Foundation Trust*;
 - £17m additional loss at *Mid Staffordshire NHS Foundation Trust* in Q3 2014/15;
 - Confirmation of a c.£25m reduction in Project Diamond funding in 2014/15 which affects several large teaching and specialist trusts especially in the London region; and
 - A shortfall in expected income from donations, including £16m at *Great Ormond Street Hospital NHS Foundation Trust* and £13m at *South Tyneside NHS Foundation Trust*.

Performance drivers

18. Part of the decline in the sector's financial performance was due to under delivery of planned cost savings, with a current shortfall of £210m. CIPs have actually delivered reductions of 2.6% of costs versus a planned level of 3.3%. However, even if the planned savings had been achieved, this would not have been sufficient. In year activity pressures and recruitment difficulties have also contributed to approximately £400m unplanned agency staff costs. Finally, the margins of NHSFTs (and especially acute NHSFTs) were affected as rising emergency demand paid at marginal tariff displaced higher paid elective activities. All these factors combined have caused expenditure to grow at a significantly faster pace than revenue.

Cash and capex

19. Despite the growing size of the net deficit, the cash retained by NHSFTs at the end of the Q3 continued to exceed plan by some £216m, and was unevenly distributed across different organisations. NHSFTs with less cash maintained their liquidity and investment plans by managing working capital, and drawing on funds from the Department of Health. Total cash held at Q3 2014/15 was £3.7bn, sufficient for 32.5 days' operation. Allowing for short term liabilities, net current assets are only £1.58bn, equivalent to 14 days' operations, similar to the previous quarter.
20. NHSFTs are currently under-spending against their capital plans by 27%. However, actual spend was 1% higher than Q3 last year, indicating that despite financial pressures, NHSFTs are continuing to invest in improvements in patient care. In addition, capex is considerably more than depreciation and is sufficient to cover maintenance and other essential capex.

Regulatory actions

21. A growing number of NHSFTs face significant operational and financial challenges. We continue to focus our regulatory responses on minimising concerns about quality, financial and operational performance which may adversely impact patient care, taking both formal and informal actions.
22. At the time of reporting, 28 trusts were subject to formal regulatory actions. Of these, four were due to access and outcome metrics, four were for financial concerns, 16 were for both and four for other reasons.
23. Investigations are in progress at seven trusts where major concerns have been identified, which may lead to formal regulatory actions. Further evidence is being gathered at 17 trusts to determine whether a formal investigation should be opened. At other NHSFTs, we are taking informal regulatory action such as reviewing and challenging recovery plans or escalating via the National Tripartite.
24. Since our last report, *Royal National Hospital for Rheumatic Diseases*, which was previously subject to enforcement action, has been taken over by *Royal United Hospital Bath NHS Foundation Trust*. This was to facilitate better delivery of services for patients, and to improve their governance and financial and service sustainability.
25. We continue to monitor trust performance and review our regulatory responses to decide whether further actions are required.

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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.