Monitor
Making the health sector work for patients

To: The Board

For meeting on: 28 May 2015

Agenda item: 4

Report by: Jason Dorsett, Finance, Reporting and Risk Director
Yin Shi, Head of Sector Reporting

Report on: Quarterly report on the performance of the NHS foundation trust sector: year ended 31 March 2015

Summary

1. The attached paper sets out the findings from a review of the Q4 2014/15 performance of the 151 licensed NHS foundation trusts (NHSFTs) operating during this period. This includes three newly licensed NHSFTs, the final period of operation for Royal National Hospital for Rheumatic Diseases NHS Foundation Trust for part of the quarter before being acquired by Royal United Hospital Bath NHS Foundation Trust, and the financial performance of Mid Staffordshire NHS Foundation Trust before services were transferred. Mid Staffordshire NHS Foundation Trust has been included in the report as an unlicensed NHSFT.[1]

Overview

2. 2014/15 has been an exceptionally challenging year for the NHSFT sector. Growing financial and operational pressures meant that key waiting time targets were repeatedly missed during the year, and the sector's financial performance also deteriorated significantly. For the first time, NHSFTs ended the year with a net deficit (before impairments and gains or losses on transfers) of £349m and an aggregate earnings before interest, tax, depreciation and amortisation (EBITDA) margin of 3.8%.

3. NHSFTs have indicated to Monitor that 2015/16 is likely to be even tougher. If the sector continues to operate on a business as usual basis without any funding injections or delivering substantial efficiency gains, the trajectory for 2015/16 and beyond is likely to deteriorate rapidly.

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

[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.

Operational performance

Emergency care

5. The NHSFT sector has consistently failed to meet the 95% accident and emergency (A&E) four-hour waiting time target during 2014/15. In Q4 2014/15, NHSFTs treated or admitted 91.6% of A&E patients within four hours, the lowest ever quarterly performance delivered by the sector.

6. Although patient attendances at 2.6m in Q4 2014/15 were 3.8% higher than Q4 last year, this did not appear to be the main driver for the decline in performance during the quarter. Analysis conducted by NHS England revealed that rising emergency admissions was a major cause for the decline. NHSFTs have attributed the rise to increased patient acuity.

7. In Q4 2014/15, 560,000 (27.9%) patients attending a major A&E unit required further inpatient treatment (6.8% more than Q4 2013/14 and similar to the level in Q3 2014/15), creating sustained demand pressures on hospital beds. However, high bed occupancy rates coupled with rising delayed transfers of care meant that bed supply was insufficient to meet the demand during the year, which led to long trolley waits. In Q4 2014/15, 55,400 patients waited for a bed on a trolley for more than four hours, an increase of 114% compared to the year before. Although this, to some extent, reflected NHSFTs' failure to manage their patient flows and working with other providers, issues with social care provision has become a barrier to NHSFTs effectively discharging patients.

8. Monitor has continued to work with the NHS Trust Development Authority and NHS England in order to help trusts to address these issues locally. Recent performance data published by NHS England suggests that A&E performance has started to see an improvement: performance for the sector at the week ending 10 May 2015 was 94.1%.

9. Demand pressures on ambulance trusts also showed no sign of abating. In Q4 2014/15, NHSFT ambulance trusts responded to 898,000 calls. This was 105,000 more than Q4 2013/14 (or 13.3%). However, compared to the previous quarter, calls resulting in an ambulance being dispatched fell, and fewer handover delays at A&E departments were reported during the quarter. As a result, NHSFTs' performance improved and both response targets for Red 1 (most time critical) and Category A (life threatening) calls were met. However, NHSFTs continued to struggle with their performance against Red 2 calls (serious but less time critical) with a performance of 73.1% for the quarter, breaching the 75% target.

Elective care

10. In Q4 2014/15, the size of the waiting list reached 1.76m, an 8.3% rise over the same period last year. However, the year-on-year growth in elective activity during the quarter was 4.4%. NHSFTs' performance against elective waiting time standards declined this quarter reflecting demand pressures and continued efforts to reduce the number of long waiters, following improvement observed in the previous quarter. NHSFTs in aggregate failed to meet referral to treatment

targets for both admitted (90%) and non-admitted (95%) patients, with performances of 86.9% and 94.96% respectively. This was partly due to the policy of relaxing penalties on breaches (managed breach) to reduce the number of long waiters.

11. The average waiting times for admitted and non-admitted pathways were 8.9 and 5.2 weeks respectively, similar to last quarter. However, the number of patients waiting longer than 18 weeks has risen to 128,000. This was 31% higher than March 2014, highlighting a risk to achieving the targets in the coming year.

Cancer care

12. NHSFTs continued to meet 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 during Q4 2014/15. However for the fourth consecutive quarter, NHSFTs failed to provide treatments to 85% of patients within 62 days of urgent GP referral, with a performance of 83.1% reported for Q4 2014/15.

13. During the quarter, 18,806 patients were referred by their GPs for urgent treatment and the average waiting time remained at 43 days. However, 50% of long waiters were referred for urological, gynaecological, or upper and lower gastrointestinal treatments. Consultant shortage, diagnostic delays and late referrals have been cited by many NHSFTs as causes for delays in these specialties.

C.difficile

14. NHSFTs reported 806 *C.difficile* cases at Q4 2014/15. This was 130 cases more than Q4 last year, highlighting a need to continuously improve patient safety. This increase followed two years in which the number of *C.difficile* cases fell each year. The reasons behind this rise are currently being explored.

Financial performance

Overall performance

15. NHSFTs' financial performance in aggregate has declined significantly in 2014/15. For the first time, NHSFTs ended the year with an overall net deficit. The overall net deficit totalled £349m[2], which was £339m more than that planned and £476m worse than the year before.

16. Significant activity pressures and a need to deliver operational standards meant that the planned improvement quarter on quarter did not transpire due to increased staff costs. Instead, the sector's cumulative financial performance deteriorated each quarter during the year.

[2] From the latest position in unaudited data for the agreement of balances process, there is a net receivable position from the perspective of foundation trusts in their balances with commissioners. There is therefore a risk that in some cases local foundation trust auditors may assess there is an additional bad debt risk which would adversely affect the sector net deficit position when audited local accounts are finalised.

17. 77 trusts reported a deficit for 2014/15, totalling £636m. Acute trusts continued to struggle the most, contributing to 94% of the overall gross deficit. The combined losses reported by 18 acute NHSFTs with an individual deficit of over £10m was £426m.

Performance drivers

18. Despite the EBITDA margin improving during the later quarters, the overall margin at 3.8% was significantly below the 5.2% achieved in 2013/14, and the 5% threshold that Monitor considers is required for the long term financial sustainability of the sector.

19. The fall in the margin was partly due to a failure in delivering planned cost savings, with a current shortfall of £315m. Cost improvement programmes delivered an in-year reduction in costs of 2.7% versus a planned level of 3.5%. However, even if the planned savings had been achieved, the EBITDA margin at 4.6% would still have remained below 5%.

20. Throughout the year, expenditure grew at a faster pace than revenue (3.6% versus 2.6%). Exceptionally high unplanned spend on agency staff was the main driver for the expenditure growth. Due to difficulties in recruiting planned permanent staff and unplanned demand rise, NHSFTs had to rely on agency staff during the year by paying a significant premium. While on the revenue side, a 3% rise in activity only brought a 1.9% growth in clinical revenues. This was caused by planned elective activities being displaced by unplanned emergency work, triggering 30% marginal tariff payments. As a result, costs of delivering such work were not fully compensated.

Cash and capex

21. Cash generated from operations was significantly weakened by the deficit, yet the cash retained by NHSFTs at the end of the year was still £525m above plan. NHSFTs achieved this by managing working capital and reducing planned capital expenditure (capex). Total cash held at the year end was £3.98bn, sufficient for 34 days' operation. However, when taking short term liabilities into consideration, net current assets of £1.54bn were equivalent to 13 days' operations, nearly three days fewer than a year ago.

22. Although NHSFTs under spent against their capital plan by 23% in 2014/15, the level of capex was similar to the year before, confirming that NHSFTs continued to invest in improving care infrastructure. However, in the short term, NHSFTs were able to meet this level of spend through cash reserves built up from previous year's surpluses and borrowings. This is not sustainable while NHSFTs' financial resilience continues to be eroded.

Regulatory actions

23. Given the unprecedented level of operational and financial challenges, the number of NHSFTs triggering concerns under Monitor's Risk Assessment Framework saw a steady rise quarter on quarter. However, the organisation's

regulatory focus remained on minimising concerns about quality, financial and operational performance which may adversely impact patient care, through either formal or informal actions.

24. At the time of reporting, 32 trusts were subject to formal regulatory action. Of these, four were due to access and outcome metrics, eight were due to financial concerns, 17 were for both, and three were for other reasons.

25. Since Q3 2014/15, investigations were launched at seven trusts due to financial concerns, bringing the total number of ongoing investigations to nine. Further evidence is being gathered at 13 trusts to determine whether a formal investigation should be opened. At other NHSFTs, Monitor is taking informal regulatory action such as reviewing and challenging recovery plans or escalating via the National Tripartite.

26. Appointed contingency planning teams continue to work with Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust and Tameside Hospital NHS foundation Trust. The work is aiming to improve care delivered locally and secure services for patients in the future. This work is expected to complete in summer 2015.

27. The team continues to monitor NHSFTs' performance and review Monitor's regulatory approach to decide what further actions are required.

Jason Dorsett
Finance, Reporting and Risk Director

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Head of Sector Reporting

Making a difference for patients:

Monitor's mission is to make the health sector work better for patients. By reviewing foundation trusts' 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 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.

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Performance of the foundation trust sector

Year ended 31 March 2015

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1.0 Performance summary

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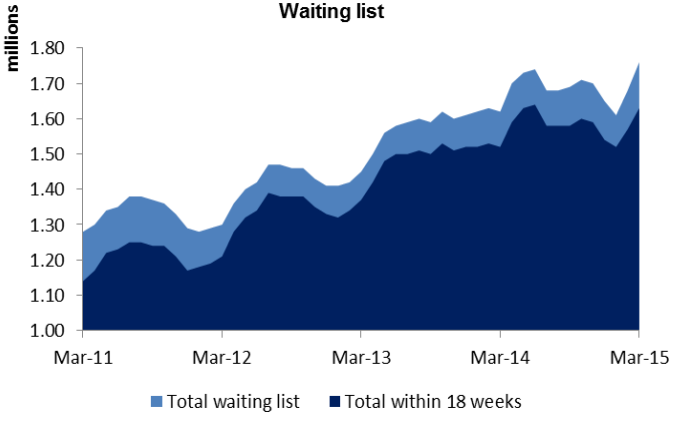
1.1 Operational summary

Description	Activity	Standard	Q4 2014/15 Performance
4 hour A&E waiting time standard	**c. 2.62m** attendances	95%	91.58%
18 week waiting time standard: admitted		90%	86.90%
18 week waiting time standard: non-admitted	**c. 1.758m** referrals	95%	94.96%
18 week waiting time standard: incomplete pathways		92%	92.73%
Cancer standard: 62-day wait for first treatment from GP referral	**c. 18,800** referrals	85%	83.07%

A&E performance breakdown

Description	Total Attendances	Q4 2014/15 performance
Type 1 - major A&E	c.2.00m	89.09%
Type 2 - single specialty	c.0.08m	99.7%
Type 3 - minor injury unit	c.0.53m	99.7%



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1.2 Financial summary

Year ended 31 March 2015

	Number of trusts[1]	Operating Revenue[2] £m	Net surplus[2] £m	Number of trusts[1] in deficit	EBITDA[2] %	GRR red rated trusts[1]	% red rated[1]
Acute	84	31,369	(466)	54	3.4%	28	33%
Mental health	42	8,362	53	14	4.7%	4	10%
Specialist	18	3,057	57	6	5.7%	-	-
Ambulance	5	946	6	2	5.1%	-	-
Community	3	153	1	1	2.7%	**-**	**-**
Total	**152**	**43,887**	**(349)**	**77**	**3.8%**	**32**	**20%**

Analysis of Acute sector

	Number of trusts[1]	Operating Revenue[2] £m	Net surplus[2] £m	Number of trusts[1] in deficit	EBITDA[2] %	GRR red rated trusts[1]	% red rated[1]
Teaching	20	13,331	(26)	9	4.8%	5	25%
Large (revenue over £400m p.a.)	6	3,093	(5)	4	4.6%	2	33%
Medium (revenue £200m-£400m p.a.)	38	11,362	(285)	26	2.4%	15	39%
Small (revenue under £200m p.a.)	20	3,582	(150)	15	0.4%	6	30%
Total	**84**	**31,369**	**(466)**	**54**	**3.4%**	**28**	**33%**

1. All information in this report is based on the 152 (151 licensed) NHS foundation trusts which existed as at 31 March 2015. The data is sourced from quarterly monitoring returns from the 153 NHS foundation trusts which existed at any point during the 14/15 year.
2. All financial information in this report is year-to-date, unaudited, and includes the period after authorisation for the five NHS foundation trusts licensed in the year and the final periods of operation of the three NHS foundation trusts that ceased to be licensed (through merger or dissolution) in the year.
3. Governance risk ratings (GRR) are based on the rating at the time of reporting.

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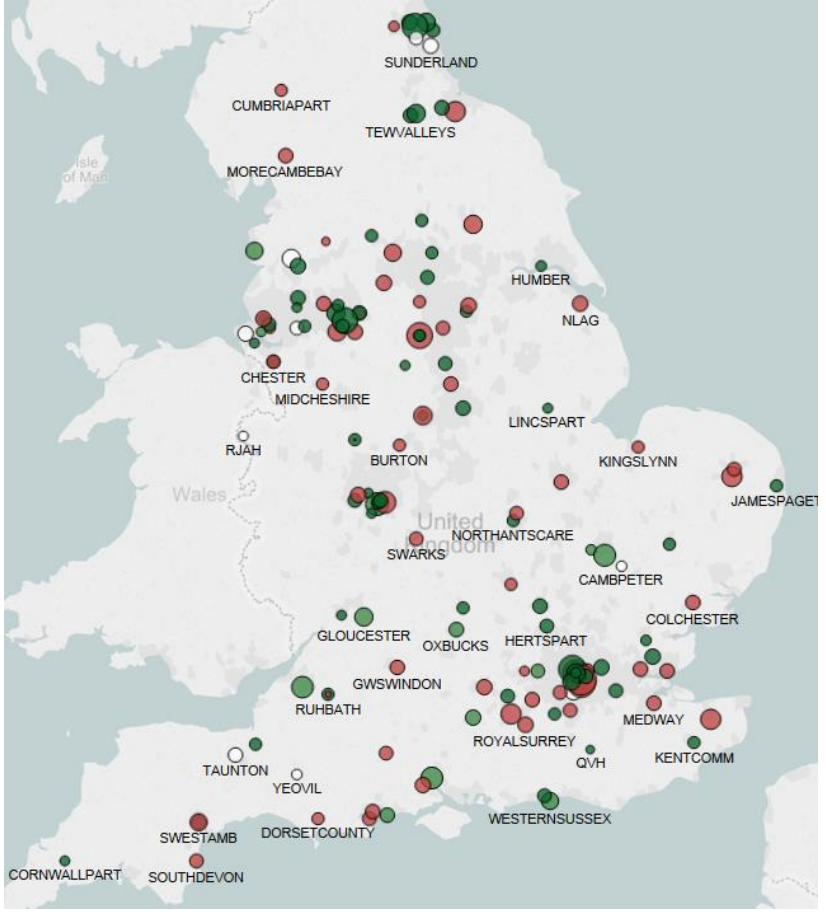
1.3 Regional summary

Regional analysis



The graph is based on Q4 2014/15 information: foundation trusts by revenue (size) and governance risk rating (*Green: no issue identified; Red: breach of provider licence; White: under review*).

Regional summary FY 2014/15

Actual	London 20 FTs	Midlands 39 FTs	North 56 FTs	South 37 FTs	Total 152 FTs
Operating Revenue (£m)	8,520	9,541	16,263	9,563	43,887
EBITDA %	5.0%	2.3%	4.1%	3.9%	3.8%
CIPs as a % of Expenses	2.1%	2.5%	3.1%	2.9%	2.7%
Net surplus (£m)	16	(260)	(32)	(73)	(349)
Net Surplus %	0.2%	-2.8%	-0.2%	-0.8%	-0.8%
Number of deficit FTs	5	22	31	19	77
% of FTs in deficit	25%	55%	55%	53%	51%
Gross deficit (£m)	(62)	(296)	(159)	(119)	(636)

- The net deficit for the FT sector was £349m for 2014/15, compared to a planned deficit of £10m. The size of the deficit grew steadily each quarter.
- Overall, 77 (or 51%) of all trusts reported a deficit for the year, varying between 20% (the lowest) in London and 55% (the highest) in the South region.
- Regionally the FTs' population is distributed
  - By number: 37% in the North, 26% in the Midlands region, 24% in the South and 13% in London.
  - By operating revenue: 37% in the North, 22% in the Midlands region, 22% in the South and 19% in London
  - By gross deficit: 47% in the Midlands region, 25% in the North, 19% in the South and 10% in London.

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2.0 Operational performance

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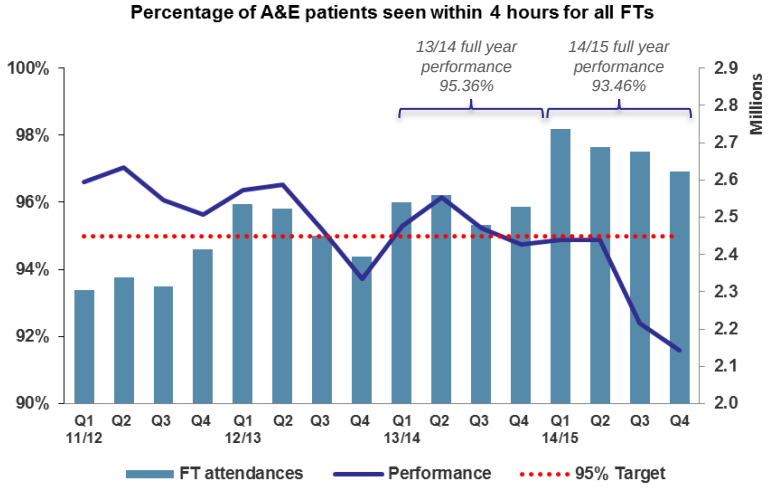
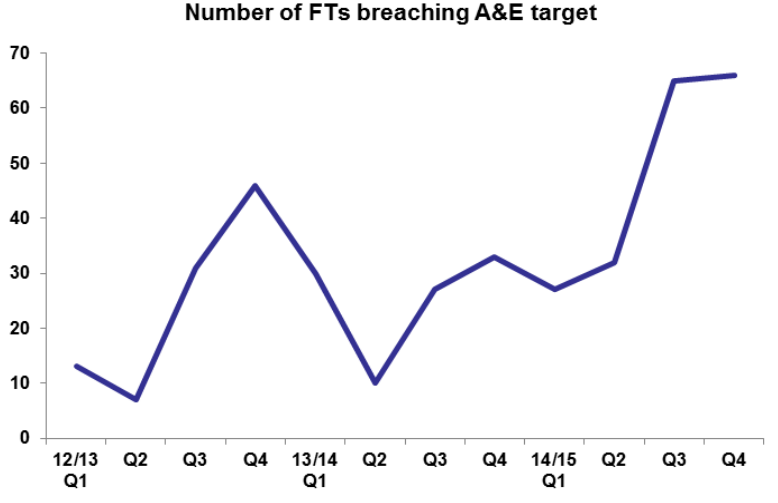
2.1 Accident & emergency





- FTs in aggregate have failed the 95% target for A&E 4-hour waits since winter 2013/14. The Q4 2014/15 performance was 91.58%, the lowest ever quarterly result for the sector. Out of 109 FTs with A&E departments, the number of FTs breaching the A&E target remained at 66 for the quarter.
- Rising demand has been cited by many FTs as one of the contributing factors to the current performance. However, the total A&E attendance of 2.6m in Q4 2014/15 was 2.0% lower than the previous quarter as quarterly performance declined to the lowest position. This suggests that attendance level alone is not the main performance driver.
- As highlighted in our previous Q3 report, 2014/15 saw a consistent rise in the number of emergency admissions particularly within major A&E units (Type 1). In Q4 2014/15, c.560,000 patients were admitted for further treatment via a major A&E unit, 6.8% higher than Q4 last year accounting for 27.9% of total Type 1 attendances during the quarter.
- Bed availability appeared to be the main constraint impacting on the patient flow. This was highlighted by the rising number of patients waiting over 4 hours for a bed following a decision to admit. In Q4 2014/15, 55,400 experienced long trolley waits, which was 29.91% higher than last quarter and 114% higher Q3 last year.
- High occupancy rates (on average over 90% during this winter), coupled with an increase in delayed transfers of care during the year (DToCs), have led to reduced daily bed supply. Although two-thirds of the delays were a result of delays within NHS services, there has been a significant increase in the number of delays due to availability of social care provision. Monitor has initiated a number of national programmes with NHS England and the NHS Trust Development Authority to complement trusts own initiatives to reduce the DToCs level. The total bed days lost due to DToCs in Q4 2014/15 was c.73,600, similar to the level reported at Q3 2014/15, but still 9.45% higher compared to the same period last year.
- Achieving the A&E target is expected to remain challenging in 2015/16. FTs will need to continue building their operational resilience by working with their partners to manage demand and improve patient flows. However, latest figures suggest that performance is improving, and FTs reported an aggregated performance of 94.11% at the week ending 10 May 2015.

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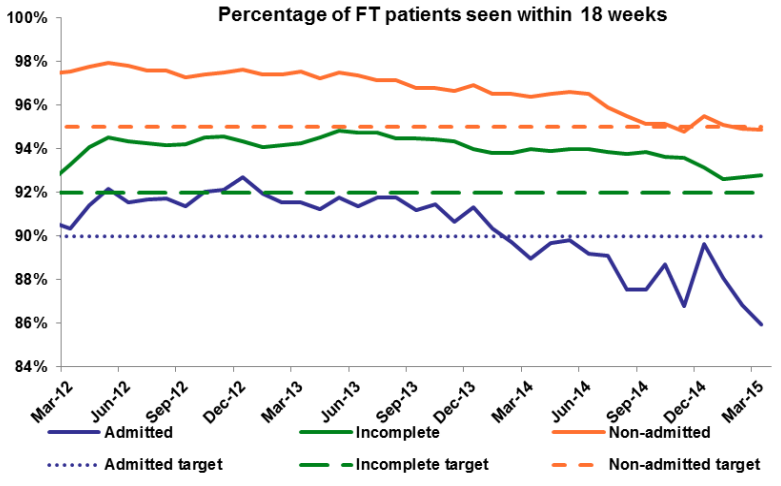
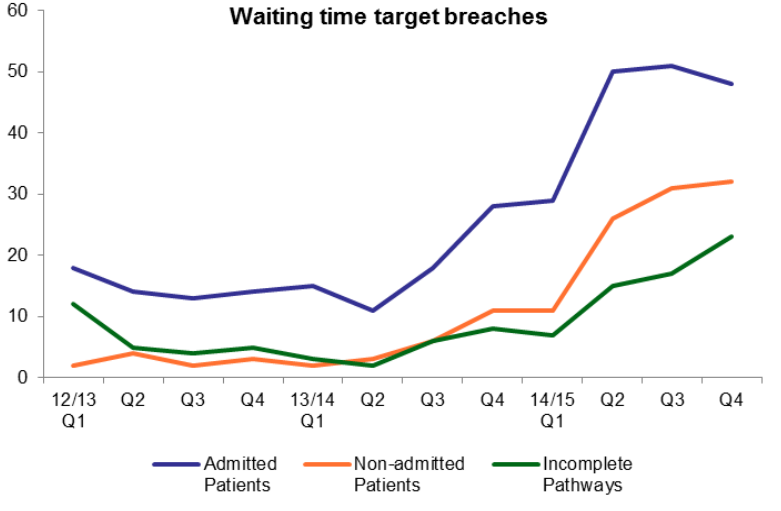
2.2 Elective waiting times





- Performance against the consultant-led referral to treatment (RTT) targets has steadily declined over the last two years. At Q4 2014/15, the FT sector's performance for the admitted, non-admitted and incomplete targets were 86.90%, 94.96% and 92.73% respectively, which were significantly below the levels achieved in Q4 2013/14 (89.69%, 96.35% and 93.98%). For the first time, the sector in aggregate failed the 95% non-admitted target and has now failed the 90% admitted target consecutively for 14 months. In Q4 2014/15, 48, 32 and 23 trusts breached the admitted, non-admitted and incomplete targets respectively, compared to 28, 11 and 8 trusts that failed the same targets last year.
- The fall in performance from Q2 2014/15 for all RTT targets was expected, as contractual penalties for missing RTT targets were suspended in August 2015 as part of a 'managed breach' policy to deal with long waiters.
- At the end of March 2015, 106 admitted patients and 348 non-admitted patients received their treatments after waiting for over 52 weeks, and 197 patients were still waiting following a referral over 52 weeks ago.
- Median waiting times at FTs for patients on admitted, non-admitted and incomplete pathways now stand at 8.9, 5.2 and 5.6 weeks, similar to the national averages. However, waits have increased slightly when compared to March 2014 (8.7, 4.9 and 5.4 weeks respectively), indicating that FTs have been under more pressure this year with their planned work. Waiting times for Urology, Orthopaedics and General Surgery have been particularly long this year, averaging at 13 weeks. This was largely due to delays in diagnostic tests, thus increasing the likelihood of trusts breaching the RTT target overall.
- At the end of 2014/15, the size of the waiting list at FTs has grown to 1.76m (1.73m excluding new FTs authorised during Q4). This was 108,000 more than the previous quarter and 8.3% (c.6% excluding new FTs) higher than the same period last year. The number of patients waiting longer than 18 weeks has increased by 31% from 98,000 in March 2014 to 128,000 in March 2015, suggesting that demand pressures are likely to continue in the coming year.

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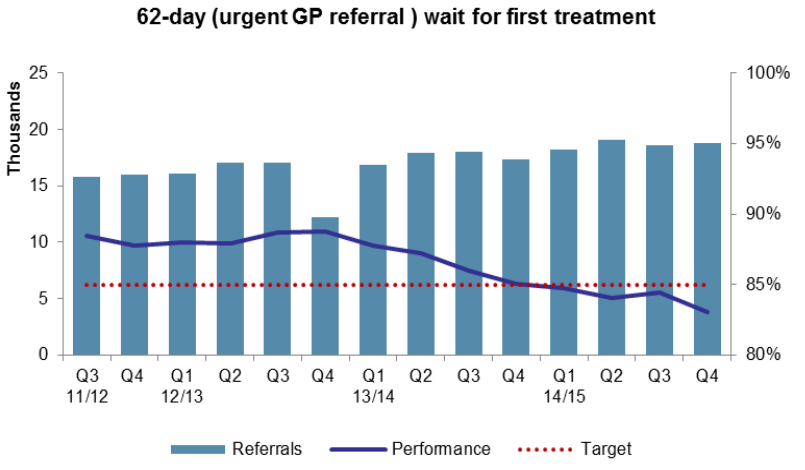
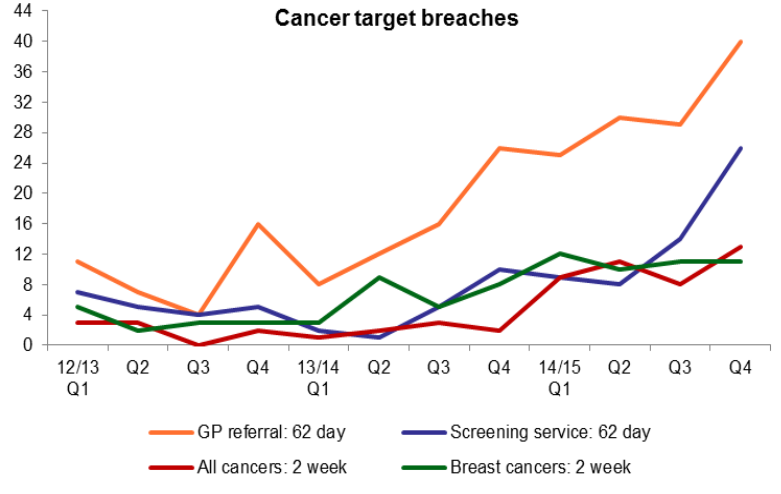
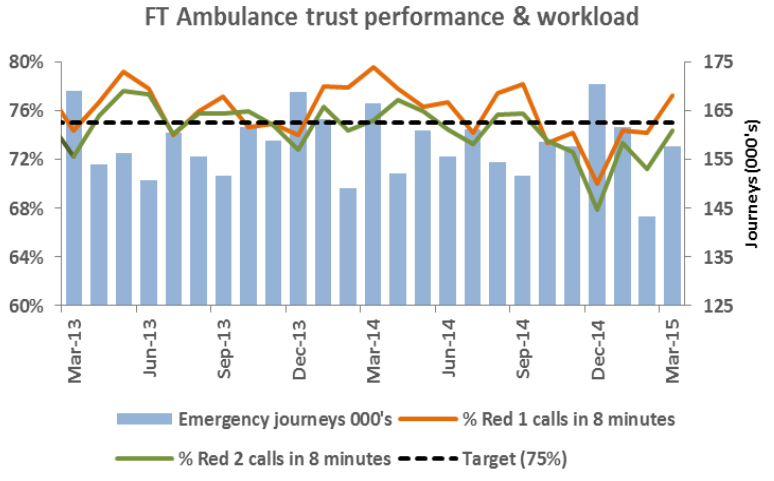
2.3 Cancer waiting times

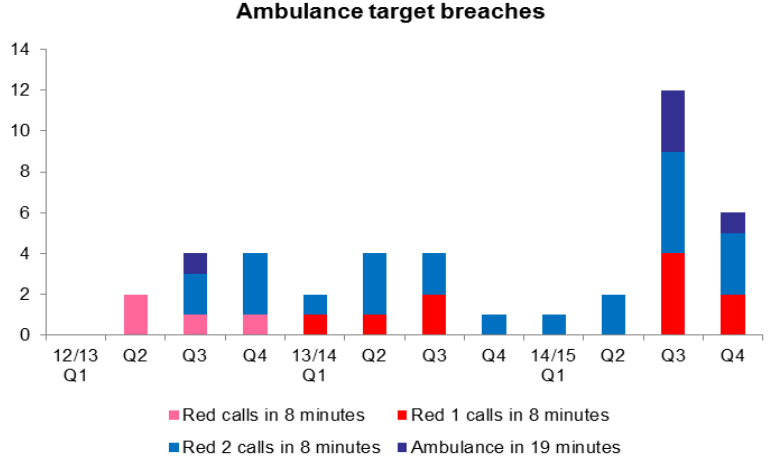




- In 2014/15, the FT sector repeatedly missed the cancer 62-day urgent GP referral target which tracks the timeliness of treatment along the whole of the patient pathway. The sector has now failed the 85% target for four consecutive quarters. Performance for Q4 2014/15 was 83.07% compared with 85.05% during the same period last year. 66 trusts failed the target this quarter compared to 26 in Q4 last year and 29 in Q3 2014/15.
- Regionally, London continues to be the worst performing region followed by Midlands. In London, late referrals was given as the key contributing factor for the poor performance, whereas in the Midlands region increased referrals was the main driver. This highlights the different challenges faced by FTs.
- On a like for like basis, the number of urgent GP referrals has increased by 7% from 18,504 in Q4 2013/14 to 18,806 in Q4 this year.
- The median waiting time for GP referred urgent cases remained at 43 days during the quarter. However, the treatments posing the most challenge for trusts were urology, upper and lower gastrointestinal, gynaecology and lung. These specialties treat approximately 60% of the patients and the median waiting time was approximately 50 days, thus increasing the likelihood of trusts breaching the 62 day limit. Consultant shortage, diagnostic delays and late referrals have been cited by some FTs as one of the reasons for long waits.
- Despite rising demand, the FT sector in aggregate has met all other cancer targets. However, the number of trusts failing these cancer waiting time targets has risen. For example, 26 trusts failed the 62-day screening service target this quarter compared to 10 in Q4 last year.

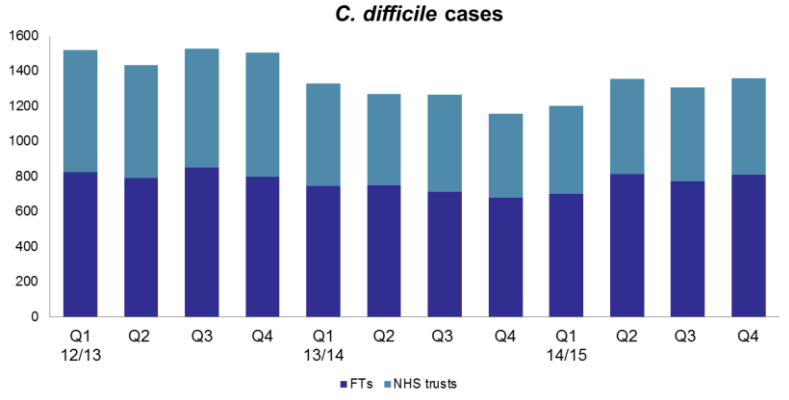
2.4 Ambulance response times

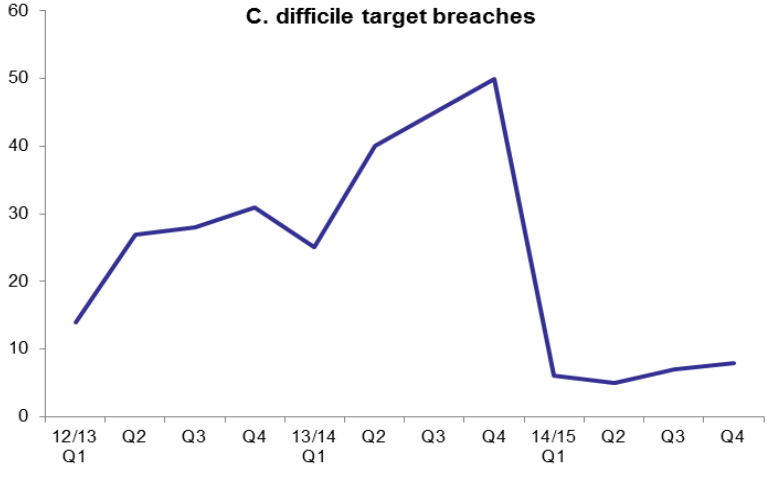




- FT ambulance trusts faced significant operational challenges in 2014/15 given rising demand and a shortage in qualified ambulance staff. Following a substantial decline in performance against key national targets in Q3 2014/15, FTs' performance has started to show signs of recovery.
- Overall, FT ambulance trusts responded to 75.28% of Red 1 calls (the most time critical patients) within eight minutes and 95.17% of Category A calls (life threatening) within 19 minutes during Q4 2014/15, thus meeting the national targets. However, the sector continued to struggle with the target for Red 2 calls (serious but less time critical) for the third quarter in a row, reporting a performance of 73.04% for Q4. Individually, only one FT breached more than one target this quarter, an improvement compared to the previous quarter.
- Demand pressures were still present within the system. During Q4 2014/15, 898,000 emergency and urgent calls were received by the ambulance FTs' switchboards, representing a 13% increase on the same period last year. In particular, the total of Red 1 calls grew by 78% from 11,000 in Q4 2013/14 to 20,000 this quarter. However, the total number of calls resulting in an ambulance being dispatched has fallen 3.5% year on year to 462,000 this quarter.
- In the previous quarter, we highlighted that delays in handing over patients to A&E departments could lead to potential breaches by ambulance trusts. The Winter Daily Situation Report published by NHS England showed that FT ambulance services experienced a monthly average of 13,000 handover delays (over 30 minutes) this quarter. This was a 12% reduction compared to previous quarter's monthly average. The reduction in delays may have led to the improved performance this quarter. However, median response times remained unchanged. In general, FTs on average still took six to seven minutes to respond to Red 1 and 2 calls.

2.5 Infection control





- The total number of *C. difficile* infection cases rose in Q4 2014/15 by 55 cases across the FT sector, a 4.2% increase from Q3 2014/15.
- Public Health England's *C. difficile* monthly infection counts for March 2015 reported 1,358 cases in Q4 14/15. Of these, 806 are attributed to FTs. This compared adversely to the same quarter last year, which saw a total of 1,157 cases reported, including 676 cases from FTs.
- However, there has been a sharp decline in the number of FTs breaching *C. difficile* target during 2014/15 since the end of 2013/14. This is a direct result of a change in 2014/15 of how the *C. difficile* target performance is measured, which places a focus on those cases caused by "lapses in care" by providers.
- Of those cases attributable to FTs, 391 (49%) cases in Q4 2014/15 have been confirmed as resulting from lapses in care, and a further 271 cases are currently being reviewed by Clinical Commissioning Groups (CCGs) to determine whether they are due to lapses in care.
- In Q4 2014/15, eight FTs failed the *C. difficile* target, including two trusts that have consistently failed every quarter during the year and three that have failed the last two quarters. Of these trusts, five are currently subject to formal regulatory action and one trust is under review by Monitor following an inspection by the Care Quality Commission (CQC).
- The rise in *C. difficile* cases continues to raise concerns and highlights the need for FTs to continuously improve their patient safety and care quality.

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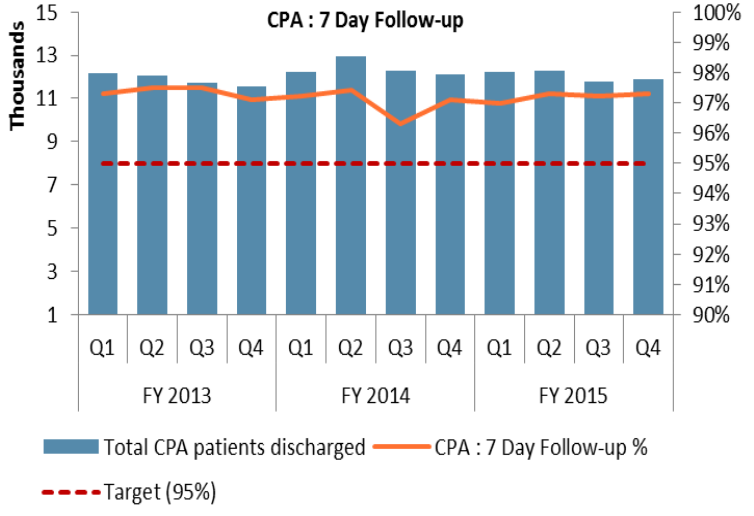
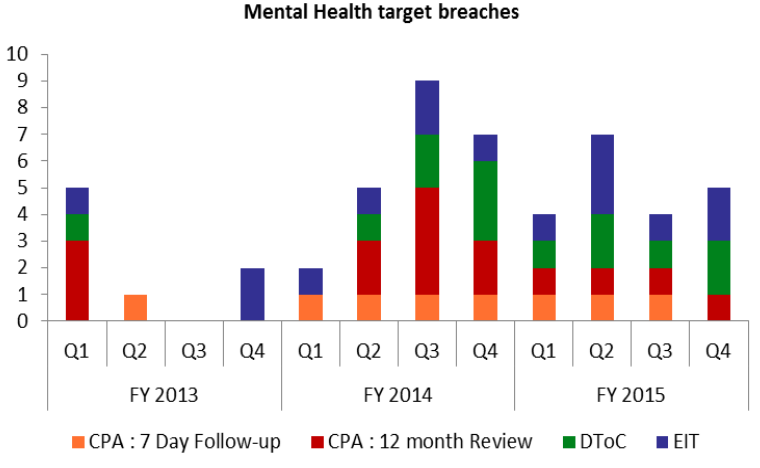
2.6 Mental health





- We monitor the performance of FTs providing mental health services against four standards. They are:
  - 95% of patients on Care Programme Approach (CPA) received follow-up contact within seven days after being discharged from inpatient care;
  - 95% of patients on CPA had a review within 12 months;
  - 95% of new psychosis cases were seen by early intervention teams; and
  - Less than 7.5% of patients experienced delayed transfer of care (DToCs).
- During 2014/15, FTs providing mental health services in aggregate met all key targets. Nonetheless, five trusts failed at least one target in Q4 2014/15. One trust has failed the DToCs target for five consecutive quarters.
- In recent years, there has been a greater emphasis on improving mental health services including more timely access to treatment, support and early intervention. The Department of Health has introduced several new mental health standards which will take effect in 2015/16. Monitor has updated the Risk Assessment Framework to reflect these changes, and the new standards that we will monitor providers against include:
  - 75% of people referred to the Improved Access to Psychological Therapies (IAPT) programme will be treated within six weeks of referral; and
  - 95% will be treated within 18 weeks of referral.
- These standards apply to adult services and will act as governance indicators from April 2016 with formal reporting commencing in Q3 2015/16.

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3.0 Financial performance

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3.1 Income & expenditure

Year ended 31 March 2015	2014/15		Variance to plan		2013/14
	Actual £m	Plan £m	£m	%	Actual £m
Operating Revenue for EBITDA	**43,887**	**42,792**	**1,095**	**2.6%**	**41,761**
Pay costs	(27,865)	(27,146)	(719)	2.6%	(26,246)
Other operating expenses	(14,333)	(13,593)	(740)	5.4%	(13,354)
EBITDA	**1,689**	**2,053**	**(364)**	**-17.7%**	**2,162**
Depreciation	(1,237)	(1,278)	41	-3.2%	(1,201)
Finance costs	(363)	(366)	3	-0.8%	(342)
PDC dividend	(510)	(534)	23	-4.4%	(461)
Other non-operating items	131	148	(17)	-11.3%	19
Restructuring costs[1]	(59)	(33)	(25)	76.1%	(51)
Net surplus/(deficit)	**(349)**	**(10)**	**(339)**	**3302.9%**	**126**
Gains/(losses) on transfers	80	74	6	8.3%	91
Impairments	(173)	(135)	(38)	28.4%	(368)
Net surplus after impairments & transfers by absorption	**(443)**	**(71)**	**(371)**	**520.8%**	**(151)**
EBITDA %	3.8%	4.8%			5.2%
Net Surplus %	-0.8%	0.0%			0.3%

Year ended 31 March 2015	Acute	Mental Health	Specialist	Community	Ambulance
	Actual £m	Actual £m	Actual £m	Actual £m	Actual £m
Operating Revenue for EBITDA	**31,369**	**8,362**	**3,057**	**153**	**946**
Pay costs	(19,280)	(6,135)	(1,710)	(104)	(636)
Other operating expenses	(11,021)	(1,832)	(1,173)	(44)	(263)
EBITDA	**1,068**	**395**	**174**	**4**	**48**
Net surplus/(deficit)	**(466)**	**53**	**57**	**1**	**6**
Net surplus after impairments & transfers by absorption	**(402)**	**(51)**	**4**	**1**	**5**
EBITDA %	3.4%	4.7%	5.7%	2.7%	5.1%
Net Surplus %	-1.5%	0.6%	1.9%	0.4%	0.6%

Note:
1. The planned deficit of £10m reflected the plans of newly authorised FTs. Excluding new FTs, the planned deficit for the year was £20m

- For the first time, the FT sector ended the year with a net deficit (before impairments and transfers) of £349m. The size of the deficit was nearly £339m larger than that planned and £475m worse than 2013/14. Of this £349m deficit, £54m was related to the historical deficits reported by *Mid Staffordshire, Heatherwood and Wexham Park Hospitals* and *Royal National Hospital for Rheumatic Diseases* before their services were acquired by or transferred to other trusts during the year.
- The sector had planned for a small deficit of £10m[1] for the year. The increase in deficit over plan was driven by the combined growth in pay costs (2.6% over plan) and non-pay costs (5.4% over plan) in excess of the growth in operating revenue (2.6%) during the year.
- FTs faced growing activity pressures this year, which led to increased use of agency staff and other extra supply costs. In the meantime, unplanned growth in A&E and non-elective activities had not brought about the same revenue growth to sufficiently offset the extra costs incurred due to national tariff rules. This had profound consequences on acute FTs' performance in particular.
- Acute FTs were the only group reporting an overall net deficit of £466m. This included £599m of gross deficits at 54 trusts and £133m of surpluses at 30 trusts. 18 trusts with an individual deficit in excess of £10m contributed to 67% of the total gross deficits, with the largest individual deficit reported by *King's* (£47m). 23 non acute trusts also recorded a deficit for 2014/15, but these deficits only amounted to £36m in total.
- FTs have told us that 2015/16 is likely to be even tougher financially. Without any funding injections or delivering substantial efficiency gains, the financial trajectory for 2015/16 and beyond is likely to deteriorate rapidly.

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3.2 Revenue analysis

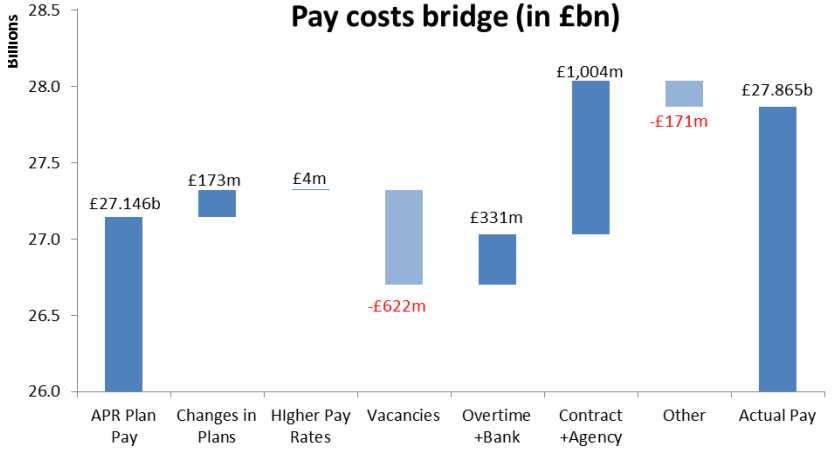
Year ended 31 March 2015	31 March 2015		Variance to plan		31 March 2014
	Actual £m	Plan £m	£m	%	Actual £m
Ambulance	880	871	8	1%	864
Community	3,165	3,131	34	1%	2,993
Mental health	5,645	5,592	53	1%	5,669
Elective in-patients	2,986	3,171	(185)	(6%)	2,994
Elective day cases	2,525	2,517	8	0%	2,421
Outpatients	4,579	4,570	9	0%	4,676
Non-elective in-patients	6,557	6,463	94	1%	6,502
A&E	949	923	26	3%	890
Maternity	776	678	98	15%	*n/a*[1]
Diagnostic tests & Imaging	416	382	34	9%	*n/a*[1]
Critical care: Adult, Neonate, Paediatric	1,345	1,279	66	5%	*n/a*[1]
High cost drugs revenue from commissioners	1,941	1,702	238	14%	*n/a*[1]
Other drugs revenue (incl. Chemotherapy)	467	372	96	26%	*n/a*[1]
Direct access & Op, all services	360	320	40	12%	*n/a*[1]
Unbundled chemotherapy delivery	164	150	14	9%	*n/a*[1]
Unbundled external beam radiotherapy	187	190	(3)	(1%)	*n/a*[1]
CQUIN Revenue	523	466	57	12%	*n/a*[1]
Other NHS clinical revenues	4,640	4,620	20	0%	9,207
NHS contract penalties or adjustments	(52)	(38)	(15)	38%	(12)
Non-NHS clinical revenues	811	775	36	5%	744
Total clinical revenue	**38,864**	**38,135**	**729**	**1.9%**	**36,949**
Research and Development	653	592	61	10%	624
Education and Training	1,586	1,489	97	7%	1,538
Other non-clinical revenue	2,891	2,722	169	6%	2,762
Total non-clinical revenue	**5,130**	**4,803**	**327**	**6.8%**	**4,924**
Total operating revenue	**43,994**	**42,937**	**1,056**	**2.5%**	**41,873**
Less: Donations & Grants of PPE	(106)	(146)	39	(27%)	(111)
Total operating revenue for EBITDA	**43,887**	**42,792**	**1,095**	**2.6%**	**41,761**
Donations & Grants of PPE	106	146	(39)	(27%)	111
Gains on transfers by absorption	280	274	6	2%	91
Non-operating revenue	97	79	18	23%	27
Total Revenue	**44,371**	**43,290**	**1,081**	**2%**	**41,991**
Total Revenue (unadjusted for losses on transfers)	**44,170**	**43,090**	**1,081**	**3%**	**41,991**

[1] *The breakdown of these revenues was not collected prior to 2014/15*

- FTs' total operating revenues for 2014/15 were 2.6% ahead of plan and 5.1% more than the previous year. £410m (or 9%) of which was attributable to six new FTs joining the sector during the year.
- Of the total revenue, total clinical revenues were 1.9% above plan and 5.2% more than 2013/14. This was due to higher than planned clinical revenues from A&E, non-elective, maternity, critical care and drugs cost reimbursements. On a cost weighted basis, activity at FTs increased by 3.0% (excluding the impact of new authorised trusts, mergers and acquisitions, the increase was only 2.0%) in 2014/15. However, FTs continued to experience significant pressures in delivering their planned inpatient elective work due to rising emergency demand. In Q4 2014/15, elective inpatient activity was c.6% below plan, whereas A&E and non-elective activity continued to exceed plan by 3.5% and 3.0% respectively.
- However, the activity growth in non-elective work has not translated into corresponding revenue growth due to the application of 30% marginal rate emergency tariff. This has worsened an already financially challenged operating environment, especially for acute FTs, with many of them now reporting net deficits for the first time. For 2015/16, the marginal rate payment for emergency admissions will be revised to 70% under the Enhanced Tariff Option (ETO). This would allow trusts to be more adequately compensated for the emergency work they do.

3.3 Operating expenses

FY ended 31 March 2015	31 March 2015		Variance to plan		31 March 2014
	Actual £m	Plan £m	£m	%	Actual £m
Pay - employees	26,094	26,380	(285)	-1%	24,874
Pay - contract and agency staff	1,770	766	1,004	131%	1,373
Pay expense	**27,865**	**27,146**	**719**	**2.6%**	**26,246**
Ambulance operating costs	69	72	(2)	-3%	72
Clinical supplies	3,799	3,620	179	5%	3,575
Drugs expense (Gross)	3,658	3,429	230	7%	3,247
Non Clinical Supplies	1,778	1,696	82	5%	1,668
Other operating expenses	5,029	4,777	252	5%	4,791
Non Pay expense	**14,333**	**13,593**	**740**	**5.4%**	**13,354**
Total operating expenses for EBITDA	**42,198**	**40,739**	**1,459**	**3.6%**	**39,600**



- Operating expenses were 3.6% above plan for 2014/15 and 6.6% higher than the year before. This was driven by overspend on a number of areas, especially on contract and agency staff. Only ambulance operating costs fell below plan due to lower fuel costs.
- For 2014/15, FTs planned a 6% increase in pay costs to reflect both pay rises and planned increases in permanent staff, coupled with a 44% year-on-year reduction in spending on contract and agency staff. Instead, permanent staff costs rose by 4.9%, while agency staff costs saw a year-on-year increase of 29% at Q4. Agency staff costs as a percentage of total staff costs at Q4 2014/15 was 6.4% compared to 5.2% in 2013/14 .
- The overspend on agency staff arose from a need to cover vacancies and unplanned demand, as acute FTs have consistently cited recruitment difficulties, particularly in qualified nursing and medical staff, and in A&E, Acute Medicine and Care of the Elderly services. In 2014/15, vacancies resulted in an underspend of £622m, but bringing staff numbers up to the required level to meet the extra demand and maintain care quality costed £331m at overtime rates, plus an additional £1.0bn spend on contract and agency staff.
- Regional variation of contract and agency spend as a percentage of total staff costs was also striking: London had the highest spend (8.3%) followed by Midlands (7%), South (6.3%) and North with the lowest (5.1%). This reflected varying degree of regional difficulties in recruiting permanent staff.
- Both clinical supplies and non-clinical supplies costs were 5% above plan. Although they were the direct results of extra activities, the growth appeared to disproportionate when compared to the unplanned cost weighted activity growth of 1%, indicating that there may be room for FTs to further control their supply costs.
- The unplanned rise in “other operating expenses” reflected the increase in clinical negligence insurance premiums. While an element of the overspend on drugs was related to pass-through costs, analysis of revenues suggested that extra reimbursement (£238m) of high cost drugs by commissioners more than compensated for this.

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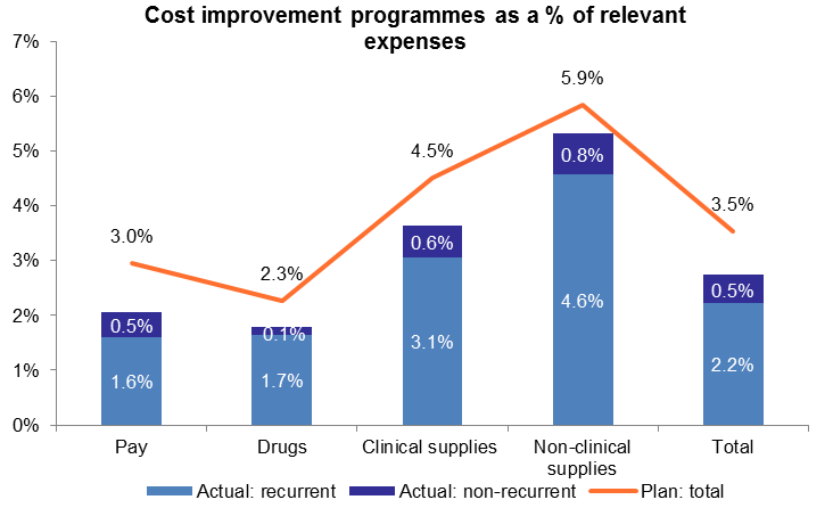
3.4 Cost improvement programmes



Cost improvement programmes as a % of operating expenditure	Mar-15 Q4 2014/15 Actual	Mar-15 Q4 2014/15 Variance from plan	Mar-14 Q4 2013/14 Actual	Mar-14 Q4 2013/14 Variance from plan
Teaching acute	2.5%	-0.7%	3.0%	-0.7%
Large acute	2.6%	-1.6%	2.9%	-1.1%
Medium acute	3.0%	-1.0%	3.2%	-1.0%
Small acute	2.6%	-0.8%	2.5%	-1.2%
Total acute	**2.7%**	**-0.9%**	**3.0%**	**-0.9%**
Mental Health	3.0%	-0.8%	3.4%	-0.6%
Specialist	1.8%	-0.7%	2.2%	-0.6%
Ambulance	4.0%	-0.1%	4.1%	-0.4%
Community	4.4%	-0.3%		
Total	**2.7%**	**-0.8%**	**3.0%**	**-0.8%**

- The overall efficiency savings delivered through cost improvement programmes (CIPs) have reduced total controllable operating costs by 2.7% (or £1.17bn) at Q4 2014/15, compared with £1.23bn (or 3.0%) achieved in 2013/14. This was £315m (or 21%) less than planned. Had the FTs achieved their planned CIPs of 3.5%, this would have improved the aggregated EBITDA margin from 3.8% to 4.6% in 2014/15.
- Historically, FTs had consistently under delivered against their planned CIPs. However, the year on year decline in CIPs achieved and the increased level of under-delivery are concerning.
- 78% of the overall CIPs shortfall was related to pay savings. At Q4 2014/15, pay CIPs were £247m (or 30%) behind plan. Acute FTs accounted for 74% of the under delivery. This was largely driven by excessive usage of agency staff to address activity and quality pressures, as many FTs had planned pay CIPs on reducing use of agency staff.
- On the other hand, the increased level of under delivery, to some extent, is a reflection of ineffective planning and implementation. 60% of FTs gave the reasons for their shortfall being as the CIPs not being deliverable due to either the delivery plan not being credible or planned timescales not realistic.
- To bridge the shortfall, FTs have continued to place their reliance on non-recurrent saving schemes. Currently, non-recurrent CIPs accounted for 19% of the total savings, similar to the historical level.
- However, FTs are increasingly finding it difficult to deliver substantial savings. In 2014/15, only 33 FTs have achieved their planned CIPs, 69 FTs under achieved their planned CIPs by 20%.

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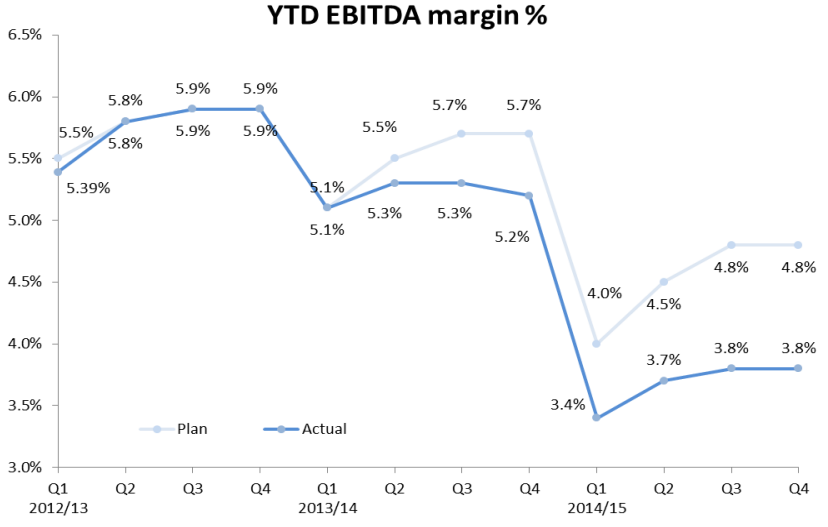
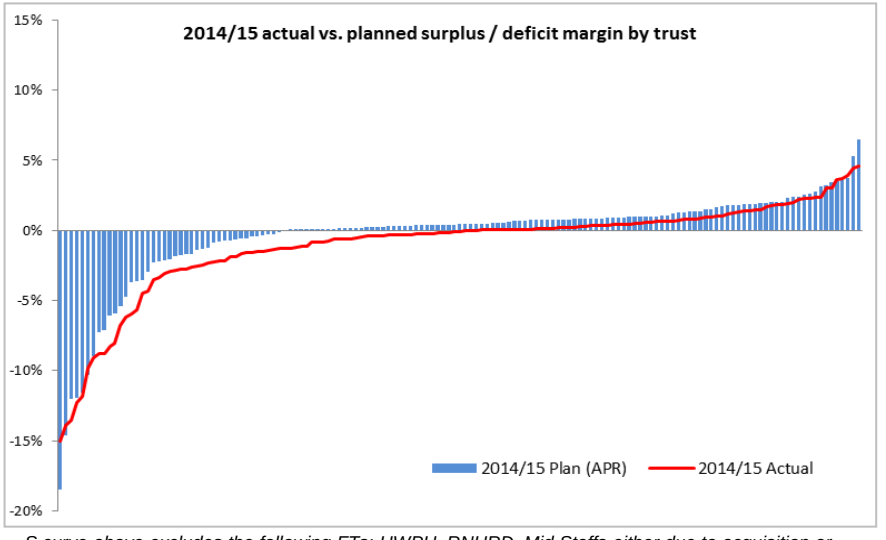
3.5 EBITDA margin



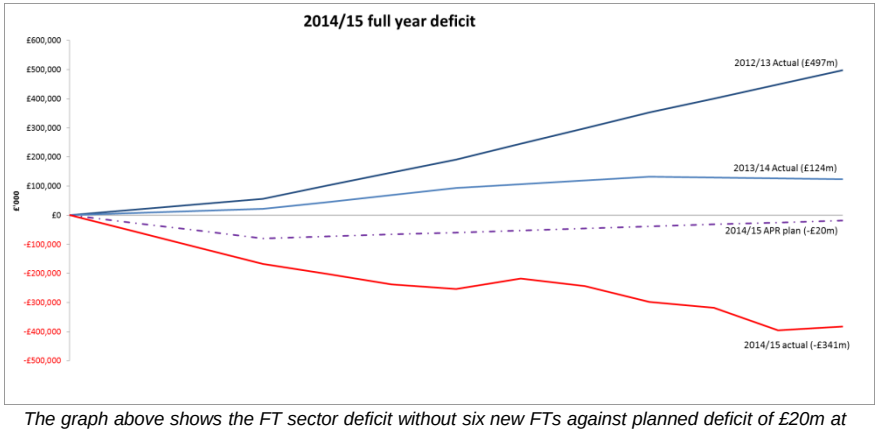
Trust Type	FY 2014/15		FY 2013/14	
	EBITDA %	Variance to plan %	EBITDA %	Variance to plan %
Teaching Acute	*4.8%*	*-0.5%*	*5.8%*	*1.0%*
Large Acute	*4.6%*	*-1.7%*	*5.8%*	*0.0%*
Medium Acute	*2.4%*	*-1.7%*	*4.2%*	*2.1%*
Small Acute	*0.3%*	*-1.3%*	*2.9%*	*2.4%*
Acute	3.4%	-1.2%	4.9%	1.4%
Mental Health	4.7%	-0.3%	5.3%	0.6%
Specialist	5.7%	-0.6%	7.4%	1.8%
Ambulance	5.1%	-0.7%	6.3%	1.6%
Community	2.7%	-1.6%	n/a[1]	n/a[1]
Total	**3.8%**	**-0.9%**	**5.2%**	**1.3%**

- Unlike 2013/14, the aggregate actual EBITDA margin did not fall in Q4 2014/15. However, the actual EBITDA margin of 3.8% was significantly below both the planned level and the 5% threshold used to assess FTs' long term financial sustainability.
- This was the first year that FTs' actual EBITDA margin remained below 4% for the entire year.
- As a group, the three newly authorised community FTs had the lowest EBITDA margin within the sector. The performance was based on post authorisation figures, hence may not be representative of their performance over a full year.
- Financial sustainability was a particular concern for small and medium acute trusts, reporting overall EBITDA margins of 0.3% and 2.4% respectively. Only specialist and ambulance trusts appeared to be meeting the financial challenges and continued to deliver EBITDA margin above 5%.
- Almost two thirds of trusts (99) reported an EBITDA margin below the 5% threshold for the year. Of these trusts, 64 were acute trusts, 23 were mental health, seven were specialist, three were community and two were ambulance trusts, indicating wide-spread financial challenges.
- A total of 16 trusts (including *Mid Staffs*) reported a negative EBITDA margin for 2014/15, four more than planned. Of these, 15 were acute trusts, and one was a specialist trust (*RNHRD*) which has now been acquired by another FT during the quarter. All of these trusts are in breach of their licensing conditions and are subject to our enforcement actions.

3.6 ‘S’ curve & full year deficit



S curve above excludes the following FTs: HWPH, RNHRD, Mid Staffs either due to acquisition or service transfer.



The graph above shows the FT sector deficit without six new FTs against planned deficit of £20m at the start of the financial year.
In recognition of six new FTs and HWPH being acquired by Frimley and RNHRD being acquired by RUH, the FT sector reported an annual deficit of £349m against a planned deficit of £10m.

- The sharp decline in FTs’ financial performance in 2014/15 was highlighted by the substantial divergence between plan and actual shown in the graphs opposite.
- The downward shift of the ‘S’ curve revealed that the number of FTs in deficit was significantly higher than planned (77 compared to planned 41).
- FTs that planned for a deficit margin or a small surplus margin at Q4 saw their margins falling on average 1.7% behind plan. Only a third of trusts (mainly mental health and specialist providers) outperformed their planned margin by an average of 0.9%. Acute trusts continued to be the most financially challenged segment of the sector during the year, as previously highlighted.
- This was the first year, in which the planned quarter on quarter improvement did not transpire. Instead, the quarterly performance saw a quarter on quarter decline.
- Although the full year deficit of £349m was substantially more than plan, the size of the deficit was slightly lower than FTs’ previous forecast at Q3 2014/15, which projected a year end deficit of £375m. The improvement was largely due to additional Project Diamond funding received by several large teaching and specialist trusts at the year end. However, the additional revenue gains were lessened by £20m unplanned delays in donations at *South Tyneside* and *Christie* and a large unplanned deficit of £47m at *King’s*.

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3.7 Balance sheet

Year ended 31 March 2015	31 March 2015		Variance to plan		31 March 2014
	Actual £m	Plan £m	£m	%	Actual £m
Property, Plant & equipment	21,782	22,253	(471)	-2%	19,843
PFI assets	4,056	3,849	207	5%	3,831
Other non-current assets	785	720	65	9%	640
Total non-current assets	**26,623**	**26,822**	**(199)**	**-1%**	**24,313**
Inventories	539	487	51	11%	489
Trade & other receivables	1,982	1,530	451	29%	1,814
Accrued revenue	465	351	114	33%	340
Prepayments	439	400	39	10%	307
Cash & Equivalents	3,987	3,452	535	15%	4,225
Other current assets	138	49	89	181%	152
Total current assets	**7,549**	**6,270**	**1,279**	**20%**	**7,328**
Borrowings	(186)	(152)	(34)	23%	(117)
Trade & other payables	(2,577)	(2,183)	(394)	18%	(2,383)
Accruals	(1,779)	(1,474)	(305)	21%	(1,564)
Deferred income	(548)	(398)	(150)	38%	(486)
Provisions	(286)	(217)	(69)	32%	(376)
Other current liabilities	(638)	(638)	0	0%	(653)
Total current liabilities	**(6,015)**	**(5,063)**	**(952)**	**19%**	**(5,580)**
Net current assets	**1,534**	**1,207**	**327**	**27%**	**1,748**
Borrowings	(2,239)	(2,060)	(179)	9%	(1,627)
Deferred income	(153)	(147)	(6)	4%	(151)
Provisions	(311)	(248)	(63)	26%	(276)
Leases PFI	(4,211)	(4,091)	(121)	3%	(4,215)
Other non-current liabilities	(189)	(377)	188	-50%	(176)
Total non-current liabilities	**(7,103)**	**(6,922)**	**(181)**	**3%**	**(6,444)**
Total funds employed	**21,054**	**21,107**	**(53)**	**0%**	**19,617**
Retained earnings	929	1,474	(545)	-37%	1,365
Public Dividend Capital	14,340	14,377	(37)	0%	13,413
Revaluation reserve	5,694	5,147	547	11%	4,750
Other reserves	92	109	(18)	-16%	89
Total taxpayers' equity	**21,054**	**21,107**	**(53)**	**0%**	**19,617**

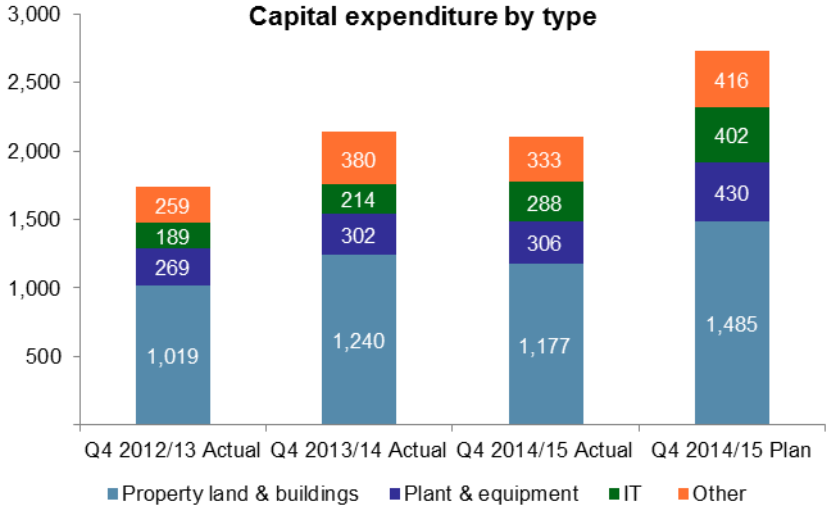
- FTs' non-current assets have increased by £2.3bn since 31 March 2014. In 2014/15, £917m worth of owned assets came from the six newly authorised trusts. Owned and donated assets at *Mid Staffs* (£123m) were transferred to *University Hospitals North Midlands NHS Trust.* In Q2 2014/15, acquisition of *Barnet Chase Farm NHS Trust* by *Royal Free* bought in £199m of owned assets, and £59m of PFI assets with a corresponding PFI lease liability of £38m. The takeovers of *RNHRD* by *RUH Bath* and *Heatherwood* by *Frimley* had no net effect. In addition, the valuation of FTs' land and properties has also increased by 11% over plan.
- The other year-to-date movements in non-current assets came from £2.1bn of capital expenditure/additions, £1.2bn of depreciation, £173m of impairment and revaluation losses, £106m of donated assets and £79m of asset disposals.
- Trade receivables at almost £2bn were £451m above plan (up 9.2% or £168m since the start of the year). £131m of these related to new FTs.
- Impairment of gross trade receivables for doubtful debts has increased to 10.8% (£239m) from 10.1% (£203m) at the start of the year, but varied regionally from 14.1% in London to 9.0% in the North region.
- Trade payables are £394m higher than planned, and have increased by 8.1% or £194m since the start of the year. £133m of this is attributable the new FTs.
- Although cash retained at the year end was £238m down from the start of the year, the fall was not as significant as planned. Nevertheless, it reflected overall erosion in the financial resilience of the sector.
- The £926m increase in PDC since 31 March 2014 includes £269m of revenue support and £61m of capex support provided to 16 FTs under the distressed provider regime, £521m PDC in six newly authorised FTs and £118m net new PDC issued by DH, plus a decrease of £38m due to the net effect of transfers or write offs (*Kings, Frimley, Royal Free, Heatherwood, RNHRD & Mid Staffs)*.

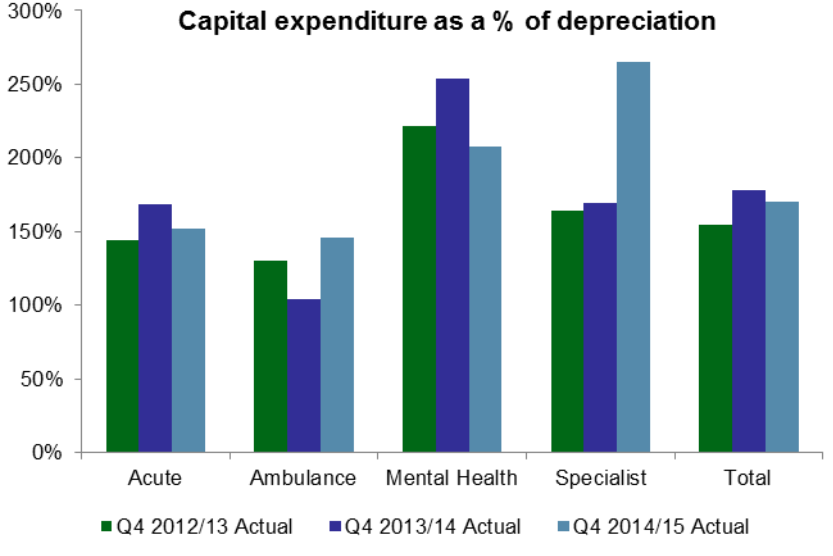
3.8 Cash flow

Year ended 31 March 2015	31 March 2015		Variance to plan		31 March 2014
	Actual £m	Plan £m	£m	%	Actual £m
Net Deficit	(443)	(71)	(371)	521%	**(151)**
Non operating & non cash items	2,169	2,196	(27)	-1%	2,283
Working capital movements	(124)	(301)	177	-59%	(423)
Net cash inflow/(outflow) from operating activities	**1,603**	**1,824**	**(221)**	**-12%**	**1,709**
Capital Expenditure	(2,124)	(2,750)	627	-23%	(2,073)
Other investing activities	128	211	(83)	-39%	102
Net cash inflow/(outflow) from investing activities	**(1,996)**	**(2,539)**	**544**	**-21%**	**(1,971)**
PDC capital movements	448	538	(89)	-17%	381
PDC dividend payments	(507)	(532)	25	-5%	(452)
PFI interest & capital payments	(425)	(413)	(12)	3%	(419)
Finance lease interest & capital payments	(35)	(48)	14	-28%	(36)
Loans drawn / (repaid), net	633	447	186	42%	533
Other financing activities	(67)	(51)	(17)	33%	(54)
Net cash inflow/(outflow) from financing	**48**	**(59)**	**107**	**-181%**	**(47)**
Net cash inflow/(outflow)	**(345)**	**(774)**	**429**	**-55%**	**(309)**
Opening Cash & Equivalents	4,225	4,133	92		4,513
Cash & Equivalents in new FTs at authorisation	97	93	-	4%	21
Closing Cash & Equivalents less overdraft	**3,977**	**3,452**	**525**	**15.2%**	**4,225**

- For the second year in a row, cash held by FTs fell. However, the fall was not as significant as planned. The sector's closing cash position was £525m better than planned despite the sector net deficit being £371m worse than planned and £292m worse than the previous year. FTs have achieved this by reducing their planned capital expenditure and managing their working capital.
- FTs underspent on their planned 2014/15 capital expenditure (accruals basis), which has led to £627m (or 23%) less cash outflow than plan. However, the cash outflow for capital expenditure has increased 2.5% compared to 2013/14, due to timing differences between when capital expenditure occurred (accruals basis) and when it was paid for. Despite the reduced spend, cash paid for capital expenditure for the year significantly exceeded the cash generated from operations, which resulted in higher borrowings (£186m above plan and £100m more than the year before).
- FTs' working capital movements included increases of £135m in deferred income and £244m in accruals more than planned, against decreases of £105m in accrued income and £147m in receivables more than planned since the start of the year. The net effect of this is that working capital increased £177m less than planned. Non-operating and non-cash items are almost as planned.
- Included within the £448m cash inflow from PDC movement was £269m of revenue support and £61m of capex support for distressed FTs as previously mentioned. Despite an increase in the level of distress funding, the sector was £89m below plan on PDC movement as FTs have not drawn all agreed funds from the Department of Health to support their capital schemes. In 2014/15, one trust (*Royal Brompton)* had drawn on its working capital facility with a private lender.
- At year end, FTs on average held enough cash to pay for 34 days operational expenditure against a planned 30.5 days, lower than performance at the start of the year (38 days). On average, they were collecting their receivables in 16.2 days against planned 12.8 days, a slight increase from the 15.6 days at the start of the year.
- Cash is unevenly distributed across the regions. The North region is holding £1.5bn, compared to £0.9bn in both London and the Midlands regions and £0.7bn in the South region. The average cash balance per FT varied from a high of £44m in London to a low of £20m in the South region.

3.9 Capital expenditure





- Capital expenditure at Q4 2014/15 was £2.1bn against a plan of £2.7bn on an accruals basis. Unplanned under-spend at 23% was slightly lower than Q3 2014/15 (27%), but was higher compared to 17% in Q4 last year. This showed that although FTs continued to spend more on capital in the last quarter of the year, they have had to reign back on planned capital expenditure at a higher level than in 2013/14.
- Overall FTs capital expenditure (on accruals basis) decreased by 1% in 2014/15 compared to 2013/14, whereas previously capital expenditure has been increasing year on year. There was a disparity across the FT sector. Acute FTs, who accounted for 66% of capital expenditure in 2014/15, had a decrease of £100m (or 7%), while specialist FTs' capital expenditure increased by £97m (or 49%).
- Capital expenditure (on accruals basis) continued to exceed depreciation expense in 2014/15. At Q4 2014/15, it was 170% against a plan of 214%. Although this was 4% lower than last year, it confirmed that FTs were still investing in improving patient infrastructure despite struggling to generate surpluses. However, the downside was that this reduced FTs' cash balance. Whilst in the short term FTs were able to use cash reserves built up from previous years' surplus or take out loans, this level of investment is not sustainable.
- FTs had a 25% capital (on cash basis) shortfall compared to cash generated from operating activities. This was a reduction against a plan of 34% and helped the cash balance. Acute FTs had a shortfall of 29%, whereas specialist FTs had a 53% shortfall.

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4.0 Regulatory performance

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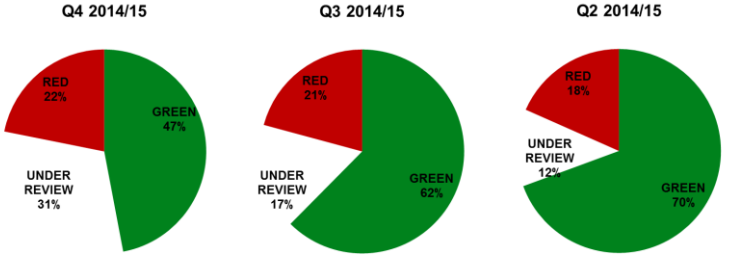
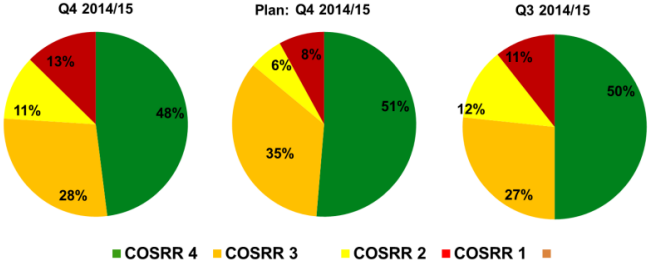
4.1 Current risks

- The *Risk Assessment Framework (RAF)* sets out our approach to overseeing FTs' compliance with the governance and continuity of services requirements of their provider licence. Under the *RAF*, each FT is assigned two risk ratings, governance risk rating (GRR) and continuity of services risk rating (COSRR), to reflect our views of its governance and its on-going availability of key services including the level of its financial risks.

GRR



COSRR



- Under the *RAF*, a trust will receive a GRR red rating if we decide to apply formal enforcement action against it. Currently, there are 32 red rated trusts either due to existing RAF concerns, or that have triggered RAF concerns in Q4 2014/15, four more than the previous quarter.
- Following formal investigations, three acute trusts (*Basildon*, *Great Western*, *King's and Norfolk* and *Norwich*) are now red-rated, increasing the total number of red-rated acute FTs from 24 in previous quarter to 28 at Q4 2014/15. Among them, two are large acute trusts, 15 are medium, six are small trusts and five are teaching trusts. This reflected the significant operational and financial pressures faced by the acute trusts, especially those medium and small in size.
- Regionally, London currently has only one red-rated trust, whereas both the Midlands and North regions have 14 and 12 respectively, and the South region has five.
- At the time of reporting, the ratings for 47 trusts were in the process of being reviewed and agreed, including nine trusts which are currently being investigated.

- COSRR is intended to identify the level of risk to the on-going availability of key services.
- Despite the financial challenges within the sector, FTs continue to have sufficient cash and other reserves to ensure both financial and service sustainability without any detrimental impact on patient care. Therefore, a trust with a deficit will not always receive a low COS risk rating.
- At Q4 2014/15, 36 trusts received a COS risk rating of 1 or 2, including 32 that had a COSRR 1 or 2 in the previous quarter. The additional four trusts with a COSRR 1 or 2 this quarter include three acute trusts *(Calderdale, Mid Cheshire* and *NLAG)* and one mental health trust (*Oxford Health*). Among these 36 trusts, 23 are currently subject to enforcement actions, and the other 13 trusts are either being formally investigated or asked to provide additional evidence.

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4.2 Foundation trusts under review

- Under the *RAF*, there are five triggers for concerns which could lead to a trust being formally investigated or being considered for investigation. There are 22 trusts that are currently under review including nine investigations already launched (see "*overview of FTs under review*").

Under investigation

- Investigations are currently open at nine trusts including two ongoing investigations and seven opened since our Q3 report (see "*trusts under investigation*" table below). The investigations launched at seven trusts since Q3 2014/15 were due to financial sustainability concerns, reflecting the growing financial challenges faced by the sector.
- Three previous investigations have now led to new enforcement actions since the end of Q3 2014/15.
- An investigation has now been closed at *West Suffolk* after the trust took a number of positive steps to improve its financial performance.

Requesting further information

- Further evidence is being gathered in relation to 13 trusts to determine whether a formal investigation should be opened into a potential breach of the conditions of their provider licence.

Overview of FTs under review

Risk Assessment Framework trigger	Total
CQC information	1
Access and outcomes metrics	5
Third party reports	1
Quality governance indicators	1
Financial risk	9
Multiple factors	5
Total	**22**

Investigation opened since the end of Q3 2014/15

Trust	Main concerns being investigated	Date the investigation opened
Warrington Hospital	Financial sustainability concerns at the trust, triggered by a COSRR of 2	February 2015
Lancashire Teaching	Financial sustainability concerns at the trust, triggered by a deterioration in the trust's forecast financial position	March 2015
Wirral Hospital	Financial stability and governance concerns at the trust, triggered by a COSRR of 2.	March 2015
Gateshead	Financial sustainability concerns at the trust, triggered by a COSRR of 2	March 2015
Sunderland	Financial sustainability concerns at the trust, triggered by a COSRR of 2	March 2015
Cambridge and Peterborough	Financial sustainability concerns at the trust, triggered by a COSRR of 2	April 2015
St George's	Financial sustainability concerns at the trust, triggered by a deterioration in the trust's forecast financial position	May 2015

4.3 Enforcement actions & special measures

- Under the *RAF*, any trust with a GRR red rating is subject to Monitor's enforcement actions. At the time of this report, 32 trusts had received a GRR red rating, a slight increase from 28 at Q3 2014/15. The change was due to four trusts having enforcement actions applied:
  - Following Monitor's investigation into its deteriorating financial performance, enforcement action was applied to *Basildon and Thurrock University Hospital NHSFT* in February 2015.
  - *Norfolk and Norwich University Hospitals NHSFT* was subject to enforcement action in April 2015 due to multiple breaches of operational targets,
  - Due to the trust's deteriorating finances, enforcement action was applied to the *Great Western Hospital NHSFT* in April 2015.
  - Following an investigation in March 2015, enforcement action was applied to *King's College Hospital NHSFT* in April 2015 due to material financial, quality and operational issues which affected the trust's ability to fully deliver its plan and to operate on a sustainable basis.
- Nine trusts, subject to enforcement action, continue to be in special measures for failing to provide good and safe care to patients. This includes *Norfolk and Suffolk,* which became the first mental health trust to be put into special measures.

Triggering financial concerns at Q4 (8)	Triggering governance concerns at Q4 (4)	Triggering both financial and governance concerns at Q4 (17)		Existing RAF concerns (3)
Barnsley	East Kent*	Basildon	Peterborough & Stamford	Calderstones
Bolton	Heart of England	Colchester*	Royal Berkshire	Cumbria Partnership
Burton*	Norwich	Derby	Sherwood Forest *	Dudley
Calderdale	Stockport	Great Western	Southend	
Northern Lincolnshire and Goole		Kettering	South Tees	
Rotherham		King's	South Manchester	
Southern Health		King's Lynn*	Tameside*	
Suffolk and Norfolk*		Medway *		
		Milton Keynes		
		Morecambe Bay*		

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4.4 Other regulatory actions

CQC warning notices

- During Q4 2014/15, there were no warning notices issued against any FTs.

Contingency planning and other regulatory work

- The work carried out by a Contingency Planning Team (CPT), aiming to develop plans to secure future services for patients at the *Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust,* is now reaching its conclusion. The report, developed in conjunction with the trust, commissioners, and other local stakeholders, is currently being finalised. Monitor expects to publish the report, as well as any next steps, in summer 2015.
- A review of health service provision in Milton Keynes and Bedfordshire has now been completed, and a programme board (attended by Monitor, NHS England and the NHS Trust Development Authority) has been set up to coordinate further detailed work as commissioners prepare for consultation. Voluntary enforcement undertakings have been agreed with *Milton Keynes Hospital NHS Foundation Trust* to ensure that the trust continues to address short term performance issues and plan for each of the scenarios being considered by commissioners.
- A CPT has been appointed for *Tameside Hospital NHS Foundation Trust*. Proposals are centred on an integrated care model for the population of Tameside. An implementation plan for delivery will also be developed in partnership with local stakeholders. The CPT will report to Monitor in summer 2015.
- Monitor, with national partners, has been working collaboratively to oversee the system transformation programme run by Cambridge and Peterborough CCG, which impacts both *Cambridge University Hospitals NHS Foundation Trust* and *Cambridgeshire and Peterborough NHS Foundation Trust*. This work seeks to secure sustainable services for patients across the local area.
- In March 2015, an enhanced buddy arrangements was agreed between *Medway NHS Foundation Trust* and *Guy's and St Thomas NHS Foundation Trust.* The collaboration is aimed to support the new leadership team at Medway to improve the hospital performance and the quality of care.

Mergers & acquisitions

- The acquisition of *Royal National Hospital for Rheumatic Diseases NHS Foundation Trust* (RNHRD) by *Royal United Hospital Bath NHS Foundation Trust* (RUH) was approved by Monitor in January 2015. The transaction took place on 1 February 2015. This will protect services for patients locally whilst providing value for money.

5.0 Glossary and end notes

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5.1 End notes

1	All financial information in this report is year-to-date and based upon unaudited monitoring returns from 153 NHS foundation trusts, of which 152 existed at some point during Q4 and only 151 existed at 31 March 2015. This includes six foundation trusts licensed since 1 April 2014 and the final period of operation for *Heatherwood* , *RNHRD* and *Mid Staffordshire* FTs. For the newly licensed foundation trusts, we only include financial data from the date of authorisation.
2	Throughout this report references to surpluses or deficits are before impairments, and gains or losses on transfers by absorption.
3	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 that when taken as a margin on revenue, it can be used to compare performance between organisations that may have very different levels of capital investment and debt financing.
4	"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
5	109 foundation trusts report performance against the A&E target.
6	Foundation trusts are deemed to have breached a waiting time target if they fail to achieve the performance standard in any month in the quarter. 103 foundation trusts reported against the admitted ,120 against the non-admitted and 19 against incomplete pathway targets.
7	82 foundation trusts report performance against the breast cancer: 2 week wait target 100 foundation trusts report performance against the GP referral: 62 day wait target 98 foundation trusts report performance against the all cancers: 2 week wait target
8	For consistency with NHS trust reporting, we deduct restructuring costs in calculating net surplus/deficit.
9	Gains/losses relating to the transfer of assets/liabilities from abolished NHS bodies to foundation trusts 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 foundation trusts are recorded as a gain/ loss on transfer within the current year surplus/deficit.
10	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*.

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5.2 Glossary (1/3)

A&E	**Accident and Emergency** departments offer a 24 hour, 7 day a week service to assess and treat patients with serious injuries or illnesses.
A&E standard	This is the objective that any patient attending an A&E department is seen and transferred, admitted or discharged within 4 hours of arrival. The objective performance against this target is 95% of patients. If a trust falls below this performance level, it is deemed to have breached the target.
Ambulance standard	**Red 1 calls** - These are the most time critical and cover cardiac arrest patients who are not breathing and do not have a pulse, and other severe conditions such as airway obstruction. **Red 2 calls** - These are serious but less immediately time-critical and cover conditions such as stroke and fits. **Cat A calls** - The number of Category A calls (Red 1 and Red 2) resulting in an ambulance arriving at the scene of the incident within 19 minutes.
Admitted patient	A patient who is formally admitted to a hospital for treatment. This includes admission that is not overnight i.e. day cases.
Cancer waiting time targets	This refers to a series of objective waiting times for patients referred for cancer diagnosis and treatment. Each target has a different objective performance. The waiting times for cancer patients are much stricter than the RTT targets, but the RTT targets include cancer patients.
Case mix	This refers to the complexity or combination of illnesses (morbidity) presented by patients. Typically variances in numbers of patients and case mix of patients combine to affect the workload of doctors.
CCG	Clinical Commissioning Group
CIP	Cost Improvement Programme This is usually a 5 year planned cost reduction programme to improve the productivity and streamline operational structures to provide efficient, effective services.
CoSRR	Continuity of Service Risk Rating. This replaced the Financial Risk Rating (FRR) from 1 October 2013. CoSRR primarily focuses on the level of liquidity and capital service capacity. There are four scores, where 1 represents the most serious risk and 4 the least risk. Unlike the FRR, a low Continuity of Service 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.
CPT	Contingency Planning Team is a team appointed by Monitor to develop options for securing sustainable patient services at a financially troubled foundation trust.
CQC	Care Quality Commission (CQC), is the independent regulator of health and adult social care services in England that ensure care provided by hospitals, dentists, ambulances, care homes and home-care agencies meets government standards of quality and safety.
CQUIN	Commissioning for Quality and Innovation is a system introduced in 2009 to make a proportion (2.5% in 12/13) of healthcare providers' income conditional on demonstrating improvements in quality and innovation in specified areas of care. This means that a proportion of each foundation trusts income depends on achieving quality improvement and innovation goals, agreed between the foundation trust and its commissioners.
Day case	A patient who is admitted and treated without staying overnight, e.g. for day surgery.
DH	Department of Health, the government department responsible for the NHS.
EBITDA	Earnings before interest, tax, depreciation and amortisation. This 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.
Elective patient	Elective surgery or procedure is scheduled in advance because it does not involve a medical emergency.
Enforcement actions	The Health & Social Care Act 2012 requires that Monitor issue licences for providers of NHS services and investigate potential breaches of the licence. Monitor can impose a range of enforcement actions ranging from from obliging providers to take steps to restore compliance, obliging them to pay a financial penalty, etc. In exceptional circumstances, Monitor will consider revoking a licence.

5.2 Glossary (2/3)

Exceptional items	Income or costs that are one-off in nature and do not therefore reflect underlying financial performance, i.e. asset impairments and gains/ losses on asset transfers.
Francis	The Francis Inquiry examined the causes of the failings in care at Mid Staffordshire NHS Foundation Trust between 2005-2009 and a final report was published on 6 February 2013 making 290 recommendations including openness, transparency and candour throughout the healthcare system (including a statutory duty of candour), fundamental standards for healthcare providers, improved support for compassionate caring and committed care and stronger healthcare leadership. The government has responded (19 November 2013) to the recommendations of the Francis Inquiry in "Hard Truths: the journey to putting patients first". It includes recommendations for improving patient involvement in their care, increased transparency, changes to regulation and inspection.
GRR	Governance Risk Rating. This is a measure of the risk of governance failure at a foundation trust. The methodology for assessing the GRR of a trust is explained in Monitor's Risk Assessment Framework.
High cost drugs	High cost drugs are typically expensive drugs used for specialist treatments e.g. cancer, that are excluded from the Payment by Results (PbR) tariff as would not be fairly reimbursed if they were funded through the tariff. Commissioners and providers agree appropriate local prices.
HMT	**Her Majesty's Treasury**, a government department that fulfils the function of a ministry of finance.
Keogh	Following the Francis Inquiry, the medical director of NHS England Sir Bruch Keogh led a review into the quality of care and treatment provided by 14 hospital trusts in England. His subsequent report identified some common challenges facing the wider NHS and set out a number of ambitions for improvement, which seek to tackle some of the underlying causes of poor care. The report signalled the importance of monitoring mortality statistics to highlight any underlying issues around patient care and safety. Using the data to identify trusts who are performing positively will also be helpful in establishing and sharing effective practice across the NHS. The report is available at this link: http://www.nhs.uk/NHSEngland/bruce-keogh-review/Documents/outcomes/keogh-review-final-report.pdf
Non-admitted patient	A patient on a pathway that does or did not include treatment without admission to a hospital, also known as an outpatient
Non-elective patient	A patient who is admitted for treatment on an unplanned or emergency basis. Such patients are not relevant to referral to treatment (waiting time targets).
Pathways	A **Pathway** describes the journey of a patient through an outpatient appointment, diagnostic tests, further outpatient appointments to a potential inpatient appointment (e.g., for surgery).
PDC dividends	Public dividend capital represents the Department of Health's equity interest in defined public assets across the NHS including authorised NHS foundation trusts. The department is required to make a return on its net assets, which takes the form of a public dividend capital dividends.
PFI	**Private Finance Initiative** is a procurement method which uses private sector capacity and public resources in order to deliver public sector infrastructure and/or services according to a specification defined by the public sector. Within the NHS a typical PFI contract involves a private consortium building a hospital and maintaining it to a defined specification for 20+ years for an NHS trust in return for annual payments from the NHS trust which are indexed to inflation.
PPE	**Property, plant and equipment**, the term used for fixed assets under International Financial Reporting Standards (IFRS)

5.2 Glossary (3/3)

Special administration	In exceptional circumstances, where a health care provider is deemed financially unsustainable, Monitor, as part of its role, appoints a special administrator to take control of the provider's affairs. The special administrator work with the commissioners to ensure that patients continue to have access to the services they need. For statutory guidance for trust special administrators appointed to NHS foundation trusts refer to: http://www.monitor-nhsft.gov.uk/sites/default/files/publications/ToPublishFinalTSAGuidanceApril2013.pdf
Special measures	A hospital trust is said to require 'special measures' on quality grounds when serious and systemic failings in relation to quality of care have been identified, and the persons responsible for leading and managing the trust are unable to resolve the problems without intensive support. An improvement plan will be published and Monitor will provide intense oversight of the trust to ensure that improvement actions are being taken. Monitor is assisted in doing this by allocating an 'Improvement Director' to the trust.
Surplus or deficits	Refers to the net financial position after operational revenue and expenses. Throughout this report references to surpluses or deficits are before any impairments and gains or losses on transfers by absorption.
Teaching hospitals	"Teaching" acute trusts are those acute trusts who are members of AUKUH (the Association of UK University Hospitals), a list is available at www.aukuh.org.uk
Waiting times	The time a patient has to wait before treatment, this is termed **RTT**(qv) in the NHS
WTE	**Whole Time Equivalent** is the adjustment to translate a number of temporary employees into the equivalent number of full time employees
RAF	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. As a result, there has been changes to how we determine risk ratings. Under the *RAF*, each FT is assessed and assigned two risk ratings, governance risk rating (GRR) and continuity of services risk rating (COSRR), to reflect our views of its governance and its on-going availability of key services.
GRR	There are three categories of governance rating: A green rating indicates that there is no material governance concerns evident. A "under review" rating is assigned where potential material causes for concerns are identified, the green rating as a result will be replaced with a description of the issue and the steps we are taking to address it. A red rating means regulation actions are taken.
COSRR	Continuity of services risk rating has four categories where 1 represents the most serious risk and 4 the least risk. However, a low COSRR 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.

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