Monitor
Making the health sector work for patients

**To:** The Board

**For meeting on:** 25 Febuary 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: 9 months ended 31 December 2014

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## 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.

**Jason Dorsett**
**Finance, Reporting and Risk Director**

**Yin Shi**
**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 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 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

## 9 months ended 31 December 2014


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# Contents



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# 1.0 Performance summary

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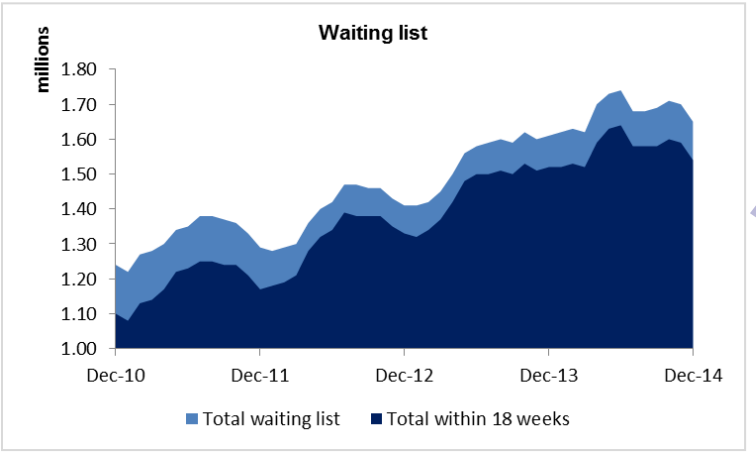
# 1.1 Operational summary

| Description | Activity | Standard | Q3 2014/15 Performance |
|---|---|---|---|
| **4 hour A&E waiting time standard** | **c. 2.68m** attendances | 95% | 92.4% |
| **18 week waiting time standard: admitted** | | 90% | 88.34% |
| **18 week waiting time standard: non-admitted** | **c. 1.65m** referrals | 95% | 95.13% |
| **18 week waiting time standard: incomplete pathways** | | 92% | 93.14% |
| **Cancer standard: 62-day wait for first treatment from GP referral** | **c. 18,600** referrals | 85% | 84.45% |

**A&E performance breakdown**

| Description | Total Attendances | Q3 2014/15 performance |
|---|---|---|
| **Type 1 - major A&E** | 2.10m | 90.3% |
| **Type 2 - single specialty** | 0.08m | 99.6% |
| **Type 3 - minor injury unit** | 0.50m | 99.7% |

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# 1.2 Financial summary

**9 months ended 31 December 2014**

| | Number of trusts* | Operating Revenue £m | Net surplus £m | Number of trusts in deficit | EBITDA % | GRR red rated trusts | % red rated |
|---|---|---|---|---|---|---|---|
| **Acute** | 83 | 23,098 | (428) | 60 | 3.2% | 24 | 29% |
| **Mental health** | 41 | 6,186 | 55 | 9 | 5.0% | 4 | 10% |
| **Specialist** | 18 | 2,260 | 43 | 5 | 5.9% | - | - |
| **Ambulance** | 5 | 696 | 8 | 2 | 5.5% | - | - |
| **Community** | **2** | **52** | (0) | 2 | 2.4% | **-** | **-** |
| **Total** | **149** | **32,291** | **(321)** | **78** | **3.8%** | **28** | **19%** |

**Analysis of Acute sector**

| | Number of trusts | Operating Revenue £m | Net surplus £m | Number of trusts in deficit | EBITDA % | GRR red rated trusts | % red rated |
|---|---|---|---|---|---|---|---|
| **Teaching** | 19 | 9,721 | (67) | 11 | 4.5% | 3 | 16% |
| **Large** (revenue over £400m p.a.) | 6 | 2,319 | 4 | 4 | 5.1% | 2 | 33% |
| **Medium** (revenue £200m-£400m p.a.) | 38 | 8,382 | (239) | 31 | 2.3% | 13 | 34% |
| **Small** (revenue under £200m p.a.) | 20 | 2,677 | (126) | 14 | 0.0% | 6 | 30% |
| **Total** | **83** | **23,098** | **(428)** | **60** | **3.2%** | **24** | **29%** |

* All financial information in this report is year-to-date and based upon unaudited quarter 3 monitoring returns from the 149 NHS foundation trusts at 31 December 2014, including three newly licensed foundation trusts and the final period of operation for Mid Staffordshire NHSFT for part of the quarter. For three newly authorised foundation trusts, we only include financial data from the date of authorisation.
** Governance risk ratings (GRR) are based on the rating at the time of reporting.

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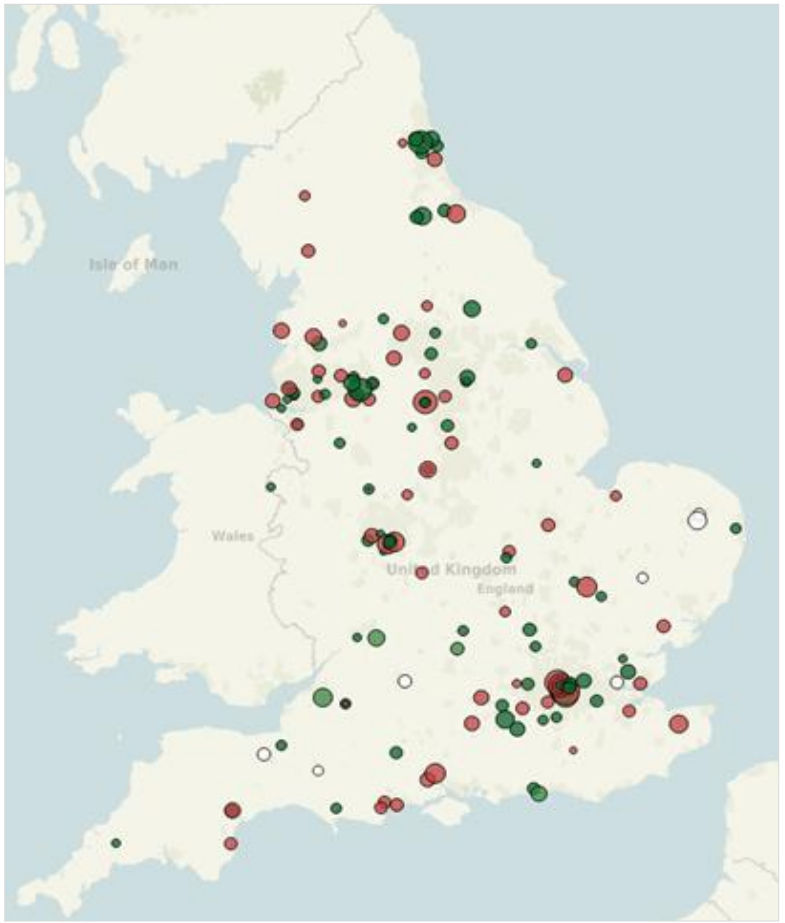
# 1.3 Regional summary

***Regional analysis***




The graph is based on Q3 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 Q3 2014/15***

| Actual | London 19 FTs | Midlands 39 FTs | North 56 FTs | South 35 FTs | Total 149 FTs |
|---|---|---|---|---|---|
| **Operating Revenue (£m)** | 6,158 | 7,058 | 12,019 | 7,056 | 32,291 |
| **EBITDA %** | 4.5% | 2.5% | 4.1% | 4.1% | 3.8% |
| **Cost improvement programme %** | 2.0% | 2.5% | 2.9% | 2.7% | 2.6% |
| **Net surplus (£m)** | (29) | (193) | (33) | (67) | (321) |
| **Net Surplus %** | -0.7% | -2.8% | -0.4% | -1.2% | -1.2% |
| **Number of deficit FTs** | 7 | 20 | 31 | 20 | 78 |
| **% of FTs in deficit** | 37% | 51% | 55% | 57% | 53% |
| **Gross deficit (£m)** | (63) | (233) | (140) | (94) | (530) |

- The net deficit for the sector was £321m at Q3 2014/15, compared to a planned deficit of £54m and deficits of £254m at Q2 and £167m at Q1.
- Overall 53% of all trusts are in deficit, varying between 37% (the lowest) in London and 58% (the highest) in the South region.
- Regionally the FTs' population is distributed
  - By number: 38% in the North, 26% in the Midlands region, 24% in the South and 12% in London.
  - By revenue: 37% in the North, 22% in the Midlands region, 22% in the South and 19% in London
  - By the gross deficit: 44% in the Midlands region, 26% in the North, 18% in the South and 12% in London.



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# 2.0 Operational performance

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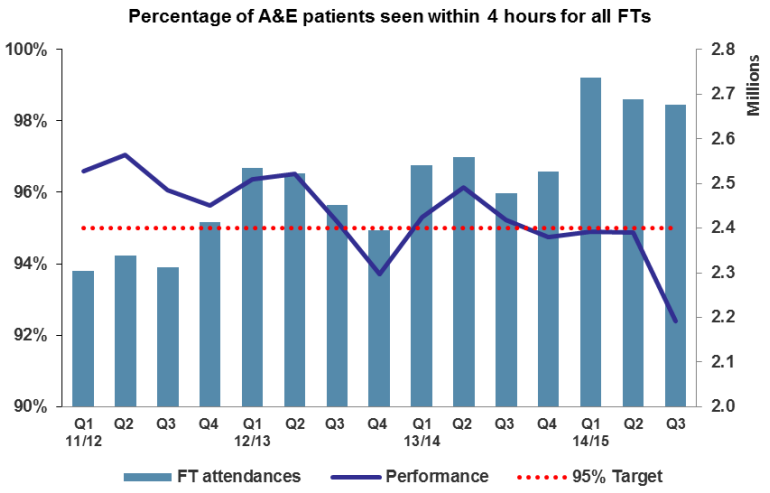
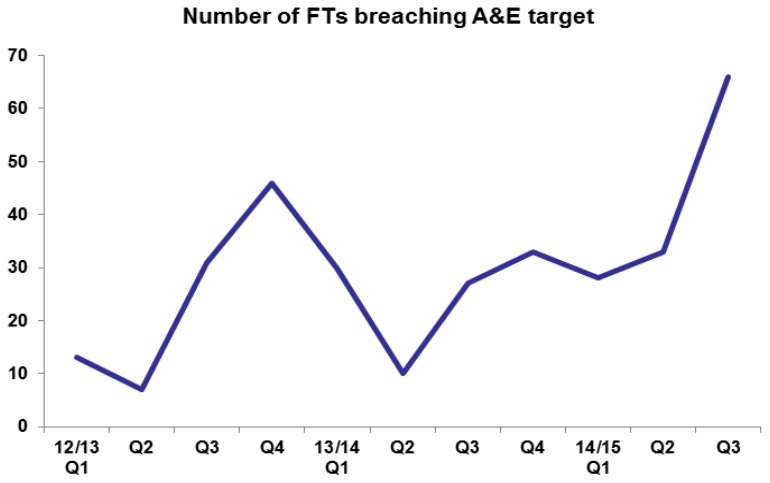
# 2.1 Accident & emergency




- Over the past three years, A&E performance during the autumn and winter months saw a year on year deterioration. However, the extent to which performance declined at Q3 2014/15 against the A&E 4-hour waiting time standard was unprecedented. The FT sector in aggregate delivered a performance of 92.4% against the 95% standard, a marked deterioration when compared to 95.2% achieved at Q3 2013/14. The number of FTs that breached the A&E target doubled to 66 compared to 33 the same period last year. The failures were mainly at trusts with Type 1 major A&E units.
- This was the fourth quarter in a row that the FT sector failed to meet the A&E waiting time standard. The attendance levels averaging at 2.7m per quarter since April 2014 meant that the emergency capacity was constantly stretched. This combined with high vacancies for A&E doctors and nurses have led to some FT emergency departments being less operationally resilient to effectively respond to winter pressures.
- In addition, emergency admissions via A&E department saw a year-on-year 7.7% increase (or over 40,000 more admissions), creating significant pressures on the whole system. National studies suggested that the number of patients admitted for respiratory illnesses has been high even during the early part of the year. However, bed capacity to meet this increased level of demand has been largely in short supply. According to the winter daily situation reports published by NHS England, the bed occupancy level during November and December was constantly above 94% at FTs, indicating constrained bed capacity. This was partially driven by a higher level of delayed transfers of care (DToCs) and bed closures due to Norovirus and flu affecting bed availability. Consequently, 42,600 patients waited on trollies for more than 4 hours this quarter, which was a 134% increase when compared to Q3 2013/14. Nationally, a number of programmes led by the Tripartite have now been established to reduce the level of DToCs and facilitate better use of community capacity. Latest performance data showed that A&E performance has started to stabilise.
- Locally, FTs are also working with partners to develop solutions to manage demand and facilitate patient flows. One of the key challenges in enabling trusts to deliver their improvement actions is timely access to GP, community and social care resources to alleviate the pressures and smooth patient flows, emphasising the continued need for a joined up care approach.

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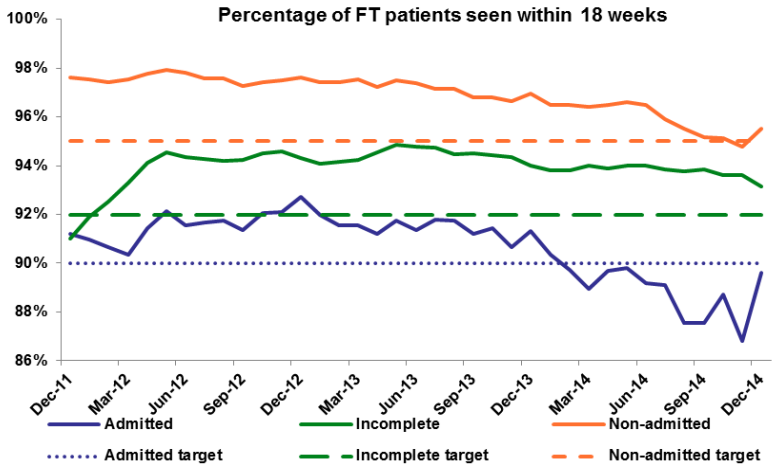
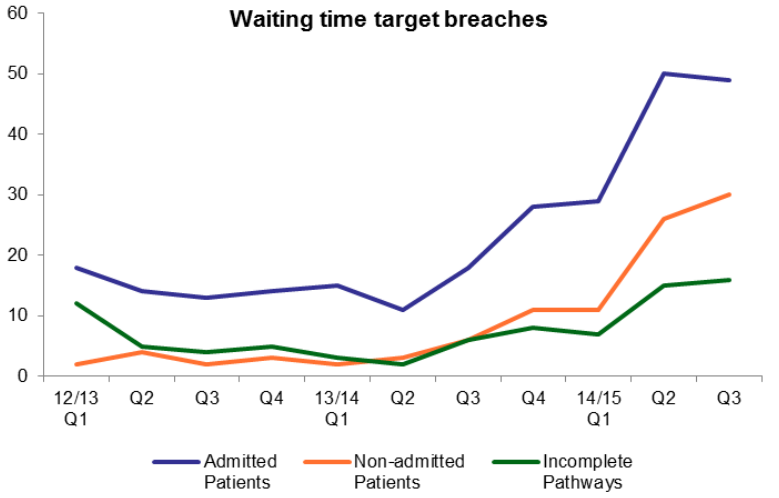
# 2.2 Elective waiting times




- The FT sector's performance against the admitted referral to treatment (RTT) target was 89.63% at Q3 2014/15 and continued to fall short of the 90% standard. However, there has been a slight quarter on quarter improvement. The number of trusts breaching the targets now stands at 50 at Q3 2014/15.
- Nationally, the Tripartite has established programmes to incentivise providers to deliver more activity and to encourage the use of the independent sector to ease the capacity constraints experienced by trusts. Locally, many trusts have recovery plans in place to reduce the backlog of patients waiting longer than 18 weeks. In these circumstances, trusts are likely to breach the reported RTT target, but this has been agreed at national and local levels.
- So far elective activities grew by 6.5% year-on-year. In the meantime, the growth in the size of FTs' waiting lists has started to slow down, potentially easing the pressures on trusts. However, the demand pressures are still present. At Q3 2014/15, FTs had a combined waiting list of 1.65m, which was 40,000 less than previous quarter but still c.2.5% higher than the same period last year. The number of patients waiting longer than 18 weeks has increased by 17% from 97,000 in December 2013 to 113,000 in December 2014.
- Average waiting time for Urology, Orthopaedics and General Surgery tend to be the longest. This is largely due to longer waiting times associated with diagnostic tests related to these specialities, thereby increasing the likelihood of trusts failing the referral to treatment target overall.
- The FT sector achieved both RTT targets for non-admitted (95%) and incomplete pathways (92%), reporting performances of 95.13% and 93.14% respectively.
- The median waiting time at FTs for patients on admitted, non-admitted and incomplete pathways now stands at 8.8, 5.3 and 6.5 weeks respectively compared to 8.4, 5.1 and 6.5 nationally. However, waits have improved when compared to September 2014 (at 9.5, 6 and 6.2 weeks respectively), indicating that performances are starting to recover.

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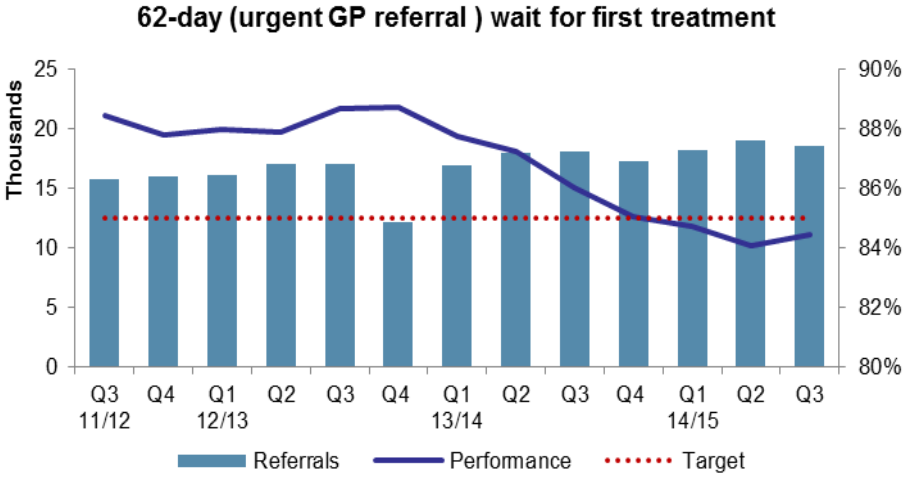
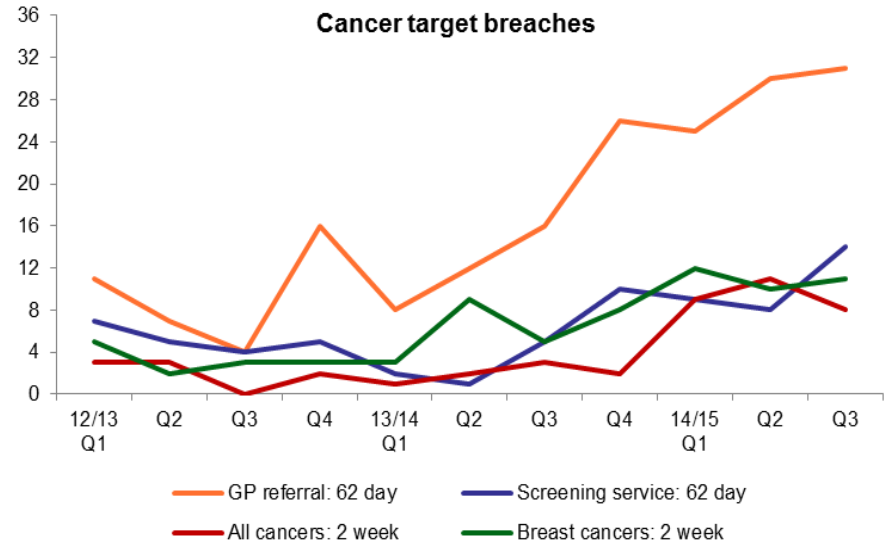
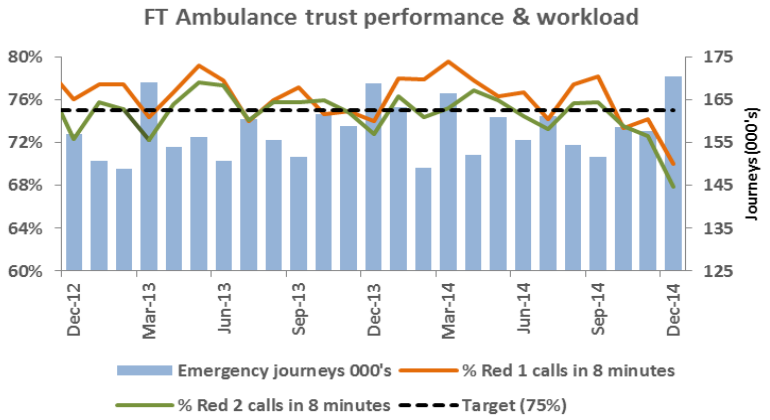
# 2.3 Cancer waiting time

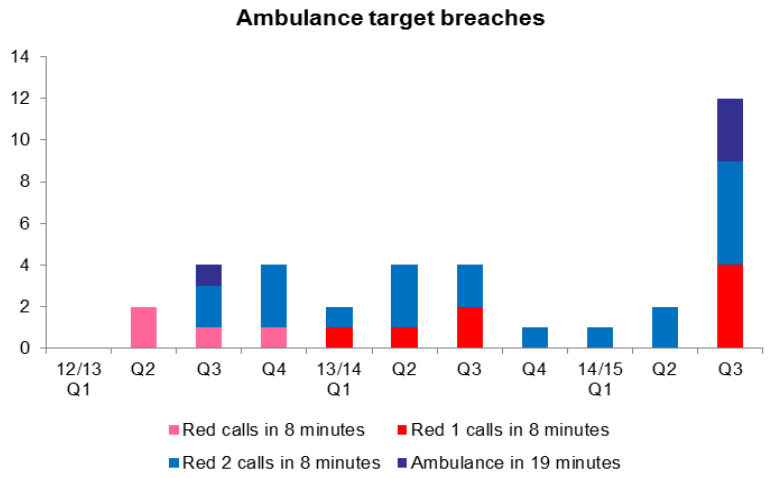



- There has been a steady decline in FTs' performance against the cancer 62-day GP referrals standard for last eight quarters. For the third consecutive quarter, the FT sector failed to meet the 85% target with a performance of 84.45%. Regionally, London and Midlands continued to perform poorly achieving 80.44% and 83.29% respectively. The number of trusts failing the target increased to 31 this quarter compared to 30 in Q2 2014/15 and 16 in Q3 2013/14.
- Despite the number of referrals falling to 18,500 at Q3 2014/15 from 19,000 at Q2 2014/15, the average waiting time for cancer patients referred by GPs have broadly remained around 43 days. However, the average wait for patients referred for gastrointestinal, head & neck, lung, sarcoma and urological treatments is close to 50 days. As these patients form 50% of the total referrals, the longer waiting time increases the likelihood of trusts breaching the target.
- The main contributing factors cited by trusts for underperformance were mostly related to complex diagnostic pathways (70% of respondents) and inadequate capacity (45% of respondents). Most of those FTs failing the target have indicated that they have action plans and programmes in place to address the issues identified. Circa 30% of trusts expect to achieve sustainable performance in Q4 2014/15 and another 30% in Q1 2015/16.
- Although cancer waiting time standards for 62-day screening services, 31 days first treatment and 2-week referrals for suspected cancer and exhibited breast symptoms are being consistently achieved by the FT sector as a whole, the number of trusts failing these targets has seen a year-on-year rise.

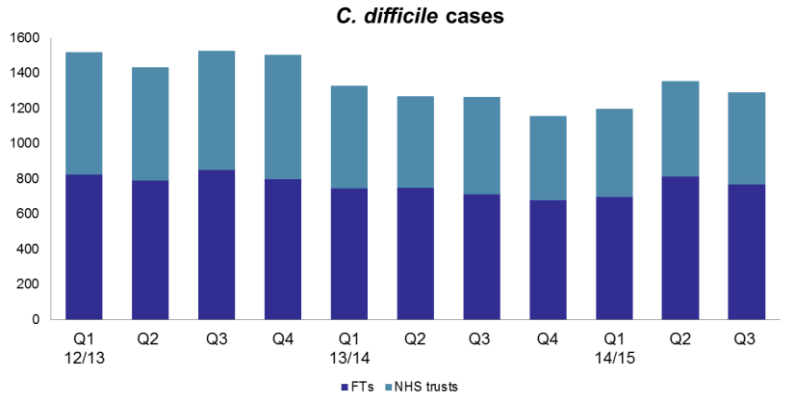
# 2.4 Ambulance response times

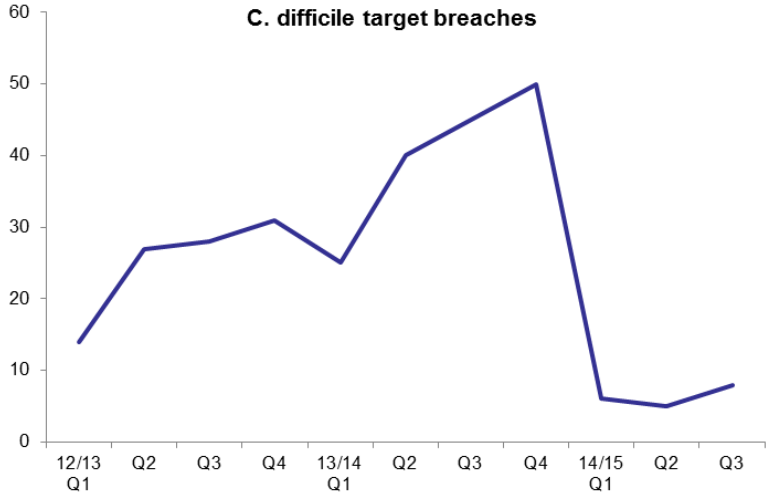



- FTs' performances against the ambulance response time standards have deteriorated considerably in recent months. In Q3 2014/15, the FT sector in aggregate failed to achieve all three key national standards against Category A (life threatening) calls including Red 1 (most time critical patients) and Red 2 (serious, but less time critical patients) categories, with all five trusts failing at least one of these standards. The proportions of Red 1 and Red 2 calls being responded to within eight minutes during the quarter were 72.32% and 71.19% respectively, significantly below the 75% target. For the first time, the sector failed to meet the standard for 95% of Category A calls to be responded to within 19 minutes for the first time, with a performance of 94.44%.
- The decline in performance was in part due to delays in handing over patients to A&E departments. When A&E departments become overcrowded, the handover times increase which could lead to potential breaches for ambulance trusts. The Winter Daily Situation Report published by NHS England showed that FT ambulance services experienced c.10,000 and c.19,000 long handover delays (over 30 minutes) in November and December 2014 respectively, representing 6.5% and 11% respectively of the total journeys in those months. This has led to a general increase in the median response time, for example, now the median response time for Red 1 and 2 calls has increased from six to seven minutes.
- In addition, the time taken from despatch to arrival at scene of incident in most Category A calls has also increased from 14 minutes this time last year to 16 minutes this quarter. This was largely related to rising demand and resource constraints (e.g. staff shortage) highlighted by our quarterly survey. Compared with the same period last year, calls to ambulance switchboards have surged by c.13% (828,000 to 933,000) and Red 1 calls by 90% (11,000 to 20,000). The number of journeys, which until recently had been relatively stable, also saw an 8% increase (158,000 to 171,000). However, ambulance trusts lacked resources to meet the current level of demand. FTs surveyed reported staff vacancies for qualified ambulance staff ranging between 10% and 24%. This has a significant impact on performance.

# 2.5 Infection control




- There was a general decline in the number of *C. difficile* infection cases in 2013/14. However, the incidences of *C. difficile* cases have risen in 2014/15.
- Public Health England *C. difficile* monthly infection counts at December 2014 reported 1289 cases for Q3 14/15. 765 of these cases were attributed to FTs, which was lower than 812 cases reported at Q2 2014/15, but 7.4% (53 cases) higher compared to the same period last year.
- However, a change to how *C. difficile* target performance is measured has placed a focus on those cases caused by “lapses in care” by providers. Of those cases attributable to FTs, 433 (57%) cases have been confirmed as due to lapses in care, and a further 315 cases are currently being reviewed by CCGs to determine whether they are due to lapses in care.
- In addition, there has also been a rise in the number of FTs failing the *C. difficile* target from six at Q2 2014/15 to eight at Q3 2014/15. Of those, three trusts also failed the target last quarter, and four trusts are currently subject to formal regulatory actions.
- The rise in *C. difficile* cases raises some concerns, it highlights the need for FTs to improve continuously their patient safety and care quality.

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# 3.0 Financial performance

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# 3.1 Income & expenditure

| 9 Months ended 31 December | Q3 2014/15 Actual £m | Q3 2014/15 Plan £m | Variance to plan £m | Variance to plan % | Q3 2013/14 Actual £m |
|---|---|---|---|---|---|
| **Operating Revenue for EBITDA** | **32,291** | **31,827** | **464** | **1.5%** | **30,779** |
| Pay costs | (20,625) | (20,206) | (419) | 2.1% | (19,490) |
| Other operating expenses | (10,432) | (10,126) | (306) | 3.0% | (9,669) |
| **EBITDA** | **1,235** | **1,495** | **(260)** | **-17.4%** | **1,620** |
| Depreciation | (918) | (945) | 28 | -2.9% | (885) |
| Finance costs | (271) | (273) | 3 | -0.9% | (254) |
| PDC dividend | (389) | (397) | 8 | -2.1% | (363) |
| Other non-operating items | 52 | 89 | (37) | -41.7% | 37 |
| Restructuring costs[1] | (30) | (22) | (8) | 37.1% | (21) |
| **Net surplus** | **(321)** | **(54)** | **(267)** | **492.3%** | **135** |
| Gains/(losses) on transfers [2] | 4 | 190 | (186) | -97.9% | 102 |
| Impairments | (122) | (45) | (76) | 169.3% | (63) |
| **Net surplus after impairments & transfers by absorption** | **(439)** | **91** | **(530)** | **-583.6%** | **174** |
| EBITDA % | 3.8% | 4.7% | | | 5.3% |
| Net Surplus % | -1.0% | -0.2% | | | 0.4% |

| 9 months ended 31 December | Acute Actual £m | Mental Health Actual £m | Specialist Actual £m | Community Actual £m | Ambulance Actual £m |
|---|---|---|---|---|---|
| **Operating Revenue for EBITDA** | **23,098** | **6,186** | **2,260** | **52** | **696** |
| Pay costs | (14,289) | (4,559) | (1,270) | (36) | (471) |
| Other operating expenses | (8,056) | (1,316) | (858) | (15) | (187) |
| **EBITDA** | **752** | **310** | **132** | **1** | **38** |
| **Net surplus** | **(428)** | **55** | **43** | **(0)** | **8** |
| **Net surplus after impairments & transfers by absorption** | **(482)** | **(6)** | **41** | **(0)** | **8** |
| EBITDA % | 3.3% | 5.0% | 5.9% | 2.4% | 5.5% |
| Net Surplus % | -1.8% | 0.9% | 1.9% | -0.2% | 1.2% |

- The FT sector has increased its overall year-to-date deficit by £67m to £321m in Q3 2014/15, which was less than the £87m increase in deficit in Q2 or £167m in Q1. However, the net deficit is now almost five times the planned value.
- The deficit was largely driven by unplanned growth in both pay costs (2.1%) and non-pay costs (3%) exceeding the growth in revenue of 1.5%, bringing about the decline in financial performance. The 'other non-operating items' variance mainly related to several large donations expected, but not received including £16m at *GOSH* and £13m at *South Tyneside*.
- In addition, the significant year-to-date adverse performance variance of £31m at *King's* and £17m additional loss in Q3 at *Mid Staffs* also contributed to the overall deterioration in the sector's financial performance.
- While 52 trusts had planned to be in year-to-date deficit at Q3, the number of trusts in deficit was 78 at Q3 2014/15 (compared to 81 at Q2, 86 at Q1) with a gross deficit of £530m.
- Those 78 deficit trusts included 60 acute trusts, two ambulance trusts, five specialist trusts, nine mental health trusts and two community trusts. This represented 72% of total acute FTs, 40% of ambulance FTs, 28% of specialist FTs, 22% of mental health and all community FTs.
- Acute trusts remained most financially challenged, with a net deficit of £428m at Q3 2014/15 and an EBITDA of only 3.3%, whereas mental health, ambulance and specialist trusts all made a small surplus and achieved EBITDA margin of over 5%. This was largely due to acute trusts being more exposed to tariff deflator and other national tariff rules.

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# 3.2 Revenue analysis

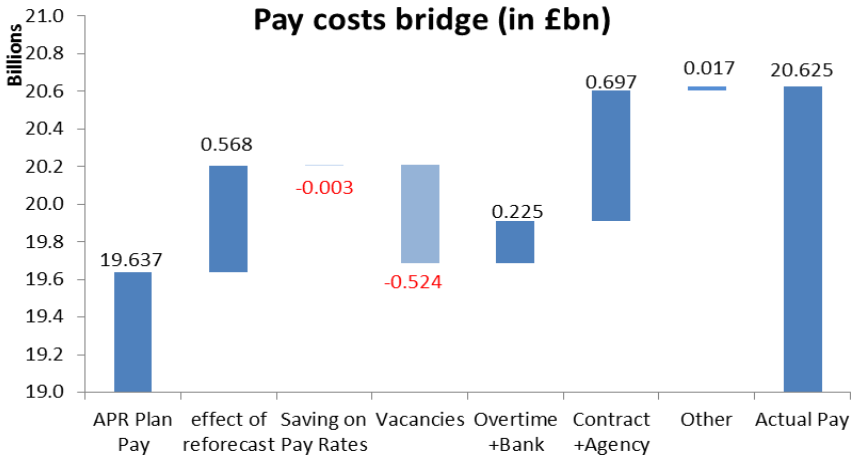
| 9 Months ended 31 December 2014 | Q3 2014/15 | | Variance to plan | | Q3 2013/14 |
|---|---|---|---|---|---|
| | Actual £m | Plan £m | £m | % | Actual £m |
| Ambulance | 656 | 650 | 6 | 1% | 641 |
| Community | 2,301 | 2,280 | 21 | 1% | 2,223 |
| Mental health | 4,184 | 4,174 | 10 | 0% | 4,220 |
| Elective in-patients | 2,237 | 2,357 | (120) | -5% | 2,239 |
| Elective day cases | 1,878 | 1,880 | (2) | 0% | 1,796 |
| Outpatients | 3,389 | 3,396 | (7) | 0% | 3,473 |
| Non-elective in-patients | 4,857 | 4,818 | 39 | 1% | 4,843 |
| A&E | 714 | 689 | 25 | 4% | 670 |
| *Maternity* | 583 | 507 | 76 | 15% | n/a[1] |
| *Diagnostic tests & Imaging* | 306 | 286 | 20 | 7% | n/a[1] |
| *Critical care: Adult, Neonate, Paediatric* | 1,000 | 957 | 43 | 4% | n/a[1] |
| *High cost drugs revenue from commissioners* | 1,419 | 1,268 | 151 | 12% | n/a[1] |
| *Other drugs revenue (incl. Chemotherapy)* | 351 | 279 | 73 | 26% | n/a[1] |
| *Direct access & Op, all services* | 268 | 239 | 29 | 12% | n/a[1] |
| *Unbundled chemotherapy delivery* | 123 | 113 | 10 | 9% | n/a[1] |
| *Unbundled external beam radiotherapy* | 142 | 143 | (0) | 0% | n/a[1] |
| *CQUIN Revenue* | 378 | 350 | 28 | 8% | n/a[1] |
| Other NHS clinical revenues | 3,361 | 3,424 | (63) | -2% | 6,686 |
| NHS contract penalties or adjustments | (36) | (29) | (7) | 25% | (6) |
| Non-NHS clinical revenues | 600 | 578 | 22 | 4% | 539 |
| **Total clinical revenue** | **28,712** | **28,360** | **352** | **1.2%** | **27,325** |
| Research and Development | 455 | 443 | 12 | 3% | 436 |
| Education and Training | 1,146 | 1,106 | 40 | 4% | 1,121 |
| Other non-clinical revenue | 2,046 | 2,012 | 34 | 2% | 1,969 |
| **Total non-clinical revenue** | **3,648** | **3,562** | **86** | **2.4%** | **3,526** |
| **Total operating revenue** | **32,360** | **31,921** | **438** | **1.4%** | **30,850** |
| Less: Donations & Grants of PPE | (69) | (95) | 26 | -27% | (71) |
| **Total operating revenue for EBITDA** | **32,291** | **31,827** | **464** | **1.5%** | **30,779** |

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

- FTs' total operating revenue at Q3 2014/15 was 1.4% ahead of plan and 5% up over the previous year. Circa £60m (or 1.5%) of the £438m positive variance over plan was attributable to merger and acquisition activities as well as three new FTs joining the sector this quarter. Of the reported total revenue, clinical revenues were 1.2% above plan and 5% above last year, and non clinical revenues were also up at 2.4% above plan and 3.5% over last year.
- The growth in clinical revenue was largely due to revenues from A&E, non-elective activities, maternity, critical care, and drug cost reimbursements, whereas revenues from elective work was 5% below plan.
- Analysis of activity and revenue at acute and specialist FTs showed that trusts continued to experience significant pressures to deliver effectively their elective work against plan during Q3 2014/15 due to a rise in emergency demand. Elective inpatient activities were 4.9% below plan, whereas A&E and non elective activity continued to exceed plan by 4% and 3% respectively. However, non-elective revenue currently does not grow in line with the growth in non-elective activities due to the 30% marginal tariff for non-elective admissions, i.e. a 3% rise in non elective activity was only matched by a 1% increase in revenue. This has a significant impact on the trusts' financial performance, especially acute trusts, resulting in costs of the work not being adequately reimbursed.
- The drug revenue stream continued to help support I&E performance, as the sector had a large favourable variance of £224m on drug costs reimbursement compared to a £147m adverse variance on drug expenditure.
- Additionally, CQUIN revenue awarded to trusts by their commissioners for quality and innovation was 8% (£28m) above plan, indicating that trusts continue to improve quality and outcomes for patients despite growing operational and financial pressures.

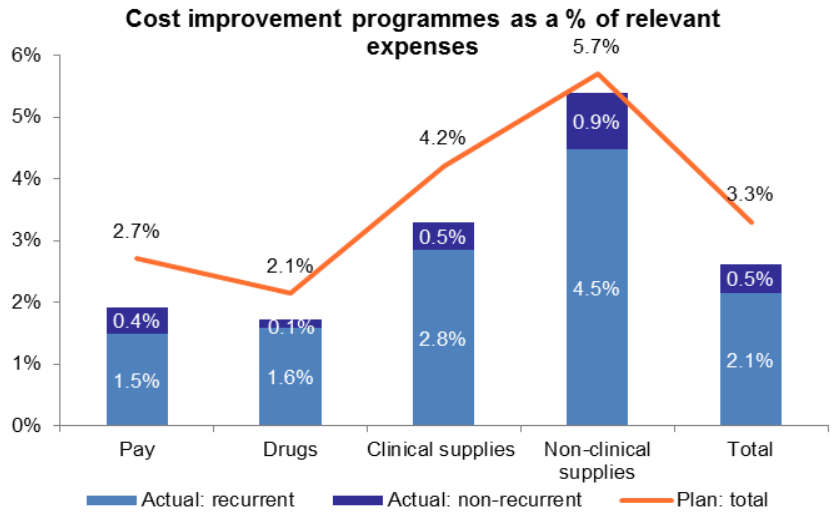
# 3.3 Operating expenses

| 9 Months ended 31 December 2014 | Q3 2014/15 | | Variance to plan | | Q3 2013/14 |
|---|---|---|---|---|---|
| | Actual £m | Plan £m | £m | % | Actual £m |
| Pay - employees | 19,359 | 19,637 | (278) | -1% | 18,513 |
| Pay - contract and agency staff | 1,265 | 568 | 697 | 123% | 977 |
| **Pay expense** | **20,625** | **20,206** | **419** | **2.1%** | **19,490** |
| Ambulance operating costs | 51 | 54 | (2) | -4% | 52 |
| Clinical supplies | 2,796 | 2,702 | 95 | 3% | 2,618 |
| Drugs expense | 2,699 | 2,552 | 147 | 6% | 2,394 |
| Non Clinical Supplies | 1,297 | 1,272 | 25 | 2% | 1,196 |
| Other operating expenses | 3,588 | 3,547 | 41 | 1% | 3,409 |
| **Non Pay expense** | **10,432** | **10,126** | **306** | **3.0%** | **9,669** |
| **Total operating expenses for EBITDA** | **31,057** | **30,332** | **725** | **2.4%** | **29,159** |




- Operating expenses were 2.4% above plan at Q3 2014/15. This was driven by significant overspend on contract and agency staff and drugs costs.
- At the start of the financial year, FTs planned for a 2.9% pay cost increase to reflect their planned increase in staffing level, and a 40% annual reduction in contract and agency spend. However, as highlighted in our previous report, the planned reduction in agency costs has not materialised. Instead, the current trend shows a year-on-year increase in agency staff costs as a percentage of total staff costs.
- A significant proportion of the overspend on agency staff has been to cover vacancies, as FTs have consistently cited recruitment difficulties, particularly in qualified nurses and medical staff. Currently, £299m planned payroll costs are replaced by £697m agency costs variance, suggesting a premium of 133% being paid.
- In addition, both activity and quality pressures have also contributed to the high usage of contract and agency staff within the sector. According to our quarterly survey, the top three clinical areas (A&E department, Acute Medicine and Care for Elderly), which has high usage of agency staff, have all seen a rise in activity.
- Regional variation on contract and agency spend at Q3 2014/15 was also striking: the London region had the highest spend (8.4%) whereas the North region had the lowest (4.9%). In our survey, FTs have told us that concerted efforts on recruitment and retention are currently being made to drive the costs down.
- The other significant area of overspend was drugs cost with a 13% increase. This was likely to be driven by a combination of activity increase and pass through costs related to high cost drugs.

# 3.4 Cost improvement programmes




| CIP as a % of operating expenditure | Dec-14 Q3 2014/15 Actual | Dec-14 Q3 2014/15 Variance from plan | Dec-13 Q3 2013/14 Actual | Dec-13 Q3 2013/14 Variance from plan |
|---|---|---|---|---|
| Teaching acute | 2.3% | -0.6% | 2.8% | -0.7% |
| Large acute | 2.4% | -1.2% | 3.0% | -1.0% |
| Medium acute | 2.7% | -0.9% | 3.0% | -0.8% |
| Small acute | 2.4% | -0.7% | 2.4% | -0.8% |
| **Total acute** | **2.5%** | **-0.8%** | **2.9%** | **-0.8%** |
| Mental Health | 3.0% | -0.6% | 3.2% | -0.5% |
| Specialist | 1.8% | -0.7% | 2.2% | -0.6% |
| Ambulance | 4.0% | 0.1% | 4.3% | -0.3% |
| Community | 4.2% | -0.8% | | |
| **Total** | **2.6%** | **-0.7%** | **2.9%** | **-0.7%** |

- The total efficiency savings delivered through cost improvement programmes (CIPs) have reduced the controllable operating costs by 2.6% (or £811m) at Q3 2014/15 compared to 2.4% achieved at Q2 2014/15. However, FTs had planned to deliver 3.3% CIPs by Q3 2014/15, therefore the year-to-date savings delivered were 20.6% (or £210m) short of plan.
- Pay cost savings at £160m lower than plan was the major contributor in the overall under delivery of CIPs to date, and the variance from plan worsened from 0.6% in Q2 2014/15 to 0.8% in Q3 2014/15. Acute FTs accounted for 77% of this under delivery, however, they were able to mitigate the 0.9% shortfall against their planned pay CIPs through additional non-recurrent CIPs.
- FTs continued to be more effective in reducing their spend on non-clinical supplies (5.4%) and clinical supplies (3.3%). However as these are not areas of significant costs to FTs, they do not sufficiently offset the under delivery of pay CIPs.
- Activity pressures and delays to implementation have been cited as two main reasons preventing FTs from successfully achieving their planned CIPs. To compensate for the shortfall, FTs are continuing to rely on non-recurrent savings to reduce costs. So far, 18% of the total savings delivered were from non-recurrent CIPs compared to 6% planned.
- FTs historically delivered a significant part of their CIPs in the latter part of the year. Although some trusts surveyed remained confident in delivering their planned CIPs, given the current performance and historical rate of improvement, the FT sector will not achieve planned CIPs by the end of this financial year.

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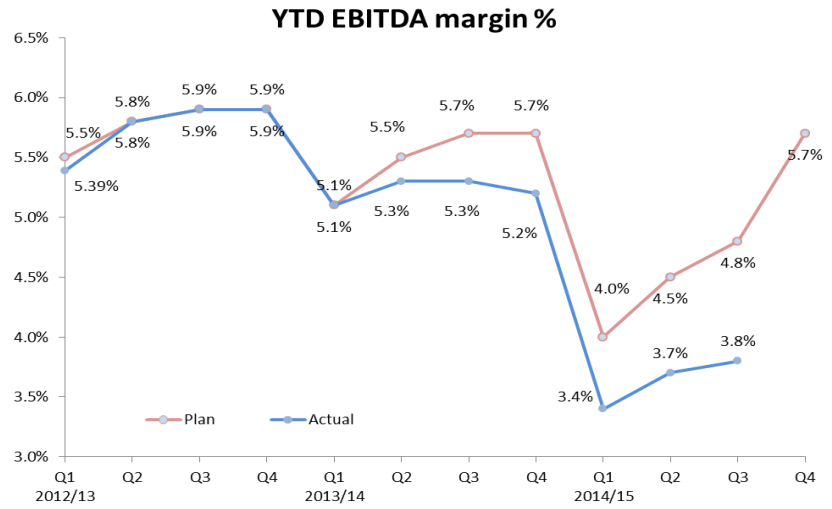
# 3.5 EBITDA margin




| Trust Type | Q3 2014/15 EBITDA % | Q3 2014/15 Variance to plan % | Q3 2013/14 EBITDA % | Q3 2013/14 Variance to plan % |
|---|---|---|---|---|
| Teaching Acute | 4.5% | -0.8% | 5.7% | -0.4% |
| Large Acute | 5.1% | -1.1% | 6.1% | -0.3% |
| Medium Acute | 2.3% | -1.4% | 4.2% | -1.0% |
| Small Acute | 0.0% | -1.7% | 3.5% | -1.0% |
| **Total Acute** | **3.3%** | **-1.2%** | **5.0%** | **-0.7%** |
| Mental Health | 5.0% | 0.0% | 5.6% | 0.2% |
| Specialist | 5.9% | -0.5% | 7.0% | 0.1% |
| Ambulance | 5.5% | -0.4% | 6.6% | -0.6% |
| Community | 2.4% | -1.1% | n/a[1] | n/a[1] |
| **Total** | **3.8%** | **-0.9%** | **5.3%** | **-0.5%** |

- Despite the FTs' aggregate actual EBITDA margin improving from 3.7% last quarter to 3.8% this quarter, it was the third consecutive quarter that the EBITDA margin fell below the 5% threshold, indicating that the financial sustainability remains a concern for the FT sector.
- The improvement observed in year-to-date EBITDA margin at Q3 2014/15 was in line with the historical trend due to accumulation of efficiency savings and growth in revenues.
- However, the current EBITDA margin is 31% behind plan (from 18% at Q2) indicating that actual performance against plan continues to diverge. Based on past performance, the sector is unlikely to deliver planned EBITDA of 5.7% at the end of the year.
- In November 2014, two new community FTs were authorised. As a group, they have the lowest EBITDA margin among FTs based on their post authorisation figures, hence not representative of their year-to-date performance.
- Acute FTs continued to make up 70% of the trusts (83 in total) with an EBITDA margin below the 5% threshold. Additionally, of 16 trusts with a negative EBITDA margin at Q3 2014/15, 15 of them were acute trusts.
- A large majority of the acute trusts that are financially challenged tend to be medium and small in size, thus raising the question about their long term financial sustainability.

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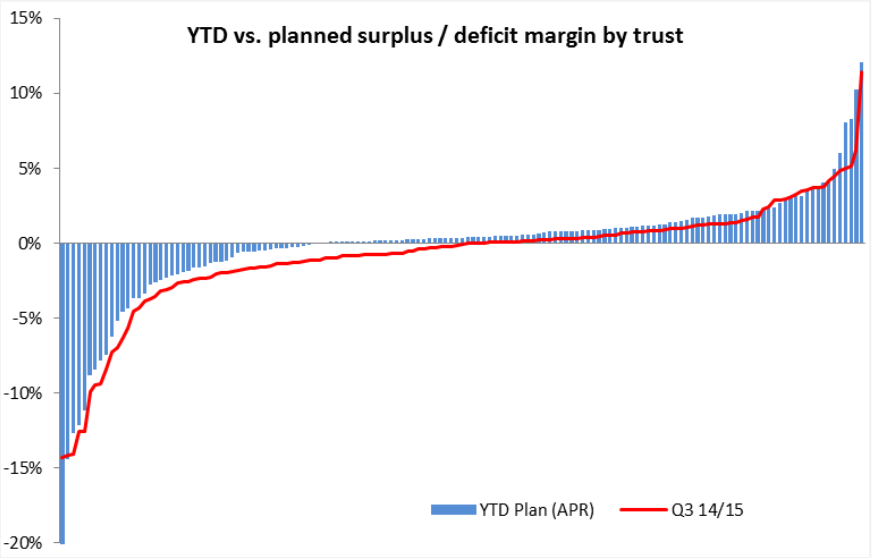
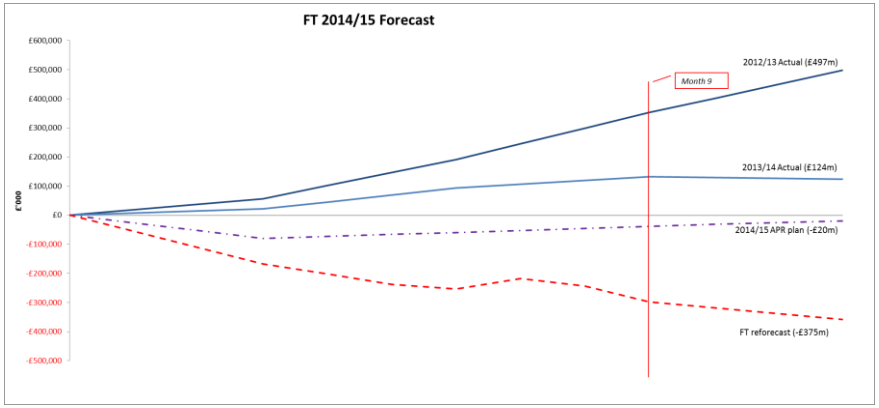
# 3.6 ‘S’ curve & full year deficit




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




*The graph above shows the FT forecast without the new FTs against planned deficit of £20m at the start of the financial year. In recognition of three new FTs and HWPH being acquired by Frimley, the FT sector is projecting a deficit of £375m against a planned deficit of £16m.*

- As highlighted by the S curve, the fall in margin continued to drive the decline in the financial performance of the FT sector. In particular, the downward shift in the year-to-date margin was present across the whole spectrum of planned surplus, except for a small number of mainly mental health and specialist trusts with planned surpluses in the region of 3 - 5%.
- The year-to-date financial performance spanned a wide range, with *Clatterbridge* reporting the highest surplus margin of 11.6% and *Peterborough* a deficit which was -14.3% of turnover.
- Acute trusts continued to be the worst performing FTs, with 72% of them reporting a deficit at Q3 2014/15 and contributing to 93% of the total gross deficit of £530m.
- Based on the current performance, the sector has revised down its forecast outturn from £271m at Q2 2014/15 to a year-end deficit of £375m. This revision also reflected the full year impact of confirmed Project Diamond funding cuts of £25m which affects large teaching and specialist hospitals mainly in London.

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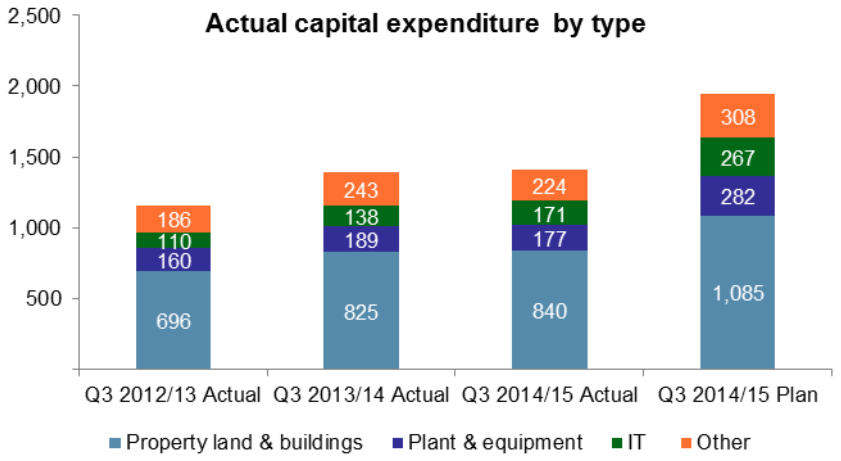
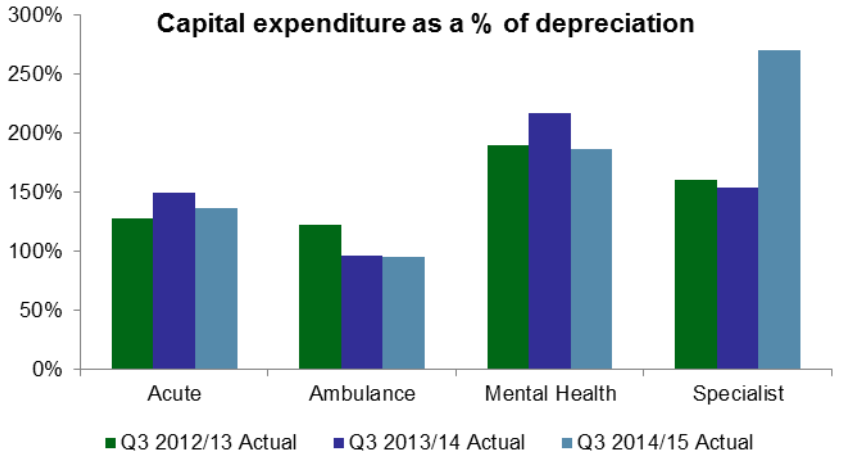
# 3.7 Capital expenditure




- Capital expenditure on an accruals basis in Q3 2014/15 was £1,413m against a plan of £1,941m. This meant FTs were 27% behind plan compared to 23% in the same quarter last year.
- Cash spent on capital expenditure exceeded cash generated from operating activities by £0.65m, representing a shortfall of 43%. This was favourable against plan (45%) and Q3 last year (47%).
- FTs can partly meet shortfalls by cash in the bank, or by calling upon PDC capital and loans for large new capital schemes. The total received PDC capital and loans net of repayment were £371m and £345m respectively, this was 4.3% less than planned overall, representing an increase of 59% in total net borrowings compared to Q3 2013/14.
- Capital expenditure as a percentage of depreciation was 154% against a plan of 205% at Q3 2014/15. Although lower than plan, this was only 3% less than Q3 last year. As these levels are greater than 100% this indicates that FTs are continuing to invest in improving patient care infrastructure.
- As FTs are finding it increasingly difficult to generate cash from operating activities to meet their plan figures, the underspend on capital expenditure both in terms of accruals and cash indicates that they are holding back on some of their planned capital expenditure.
- If the financial position of FTs continue to worsen, investment in new capital schemes will decrease, and any schemes that are committed for a number of years are likely to be risky due to the changing landscape and demands.

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# 4.0 Regulatory performance

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# 4.1 Assess and manage 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.
- Although these ratings provide a view of the level of risks within the sector, their prime purpose is to allow us to assess and determine what regulatory responses we take at individual trusts.

**Trusts triggering RAF concerns**

- Our *RAF* sets out triggers that indicate potential financial and governance concerns. Breaching a trigger does not automatically mean that there is a significant problem at the trust. However, FTs that have triggered RAF concerns are reviewed and assessed by Monitor's regional team each quarter, decisions on whether any regulatory actions should be applied or removed are calibrated and agreed by Monitor's Regional Directors. If we deem the concern may be material, our approach is to formally investigate the issue. Only when a significant problem is identified and an FT is found to be in breach of its licence, do we take enforcement actions to remedy the breach.
- During Q3 2014/15, 67 trusts triggered RAF concerns as outlined in the table below. 54 of these trusts also triggered RAF in previous quarter, and some are already subject to formal regulatory actions. For some of those trusts which triggered RAF concerns but have not been subject to formal regulatory actions, a formal tripartite escalation process is in place to monitor their performance.

| RAF trigger | No of FTs that triggered RAF concerns in Q3 | Actions | | |
|---|---|---|---|---|
| | | Enforcement action (GRR red rating) | Under review | No formal regulatory actions (GRR green rating) |
| **Financial risk (COSRR 1 or 2)** | 8 | 4 | 4 | - |
| **Access and outcome metrics** | 31 | 4 | 8 | 19 |
| **Both financial and access & outcome metrics** | 28 | 16 | 11 | 1 |
| **TOTAL** | **67** | **24** | **23** | **20** |

** Norfolk and Suffolk is now subject to enforcement action due to care quality concerns. However, the trust is currently being investigated for its worsening financial performance. However, for reporting purposes, we have only included the trust once in the table above for having "enforcement action" applied.*

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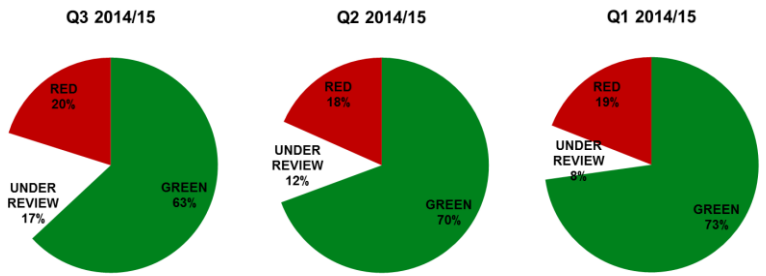
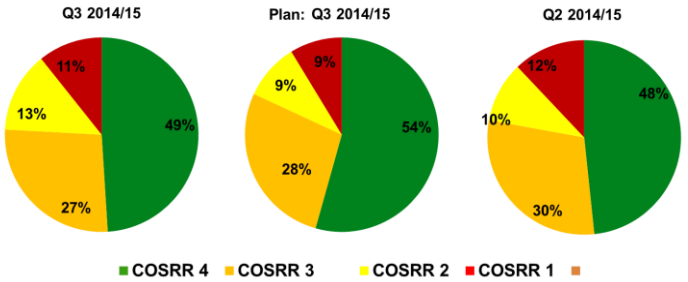
# 4.2 Current risks

**GRR**




- Under the RAF, when we apply formal enforcement action against trusts, they receive a GRR red rating. Currently, there are 28 red rated trusts either due to existing RAF concerns, or that have triggered RAF concerns during Q3 2014/15, one more than the previous quarter.
- Acute trusts continue to form the majority of the red rated trusts (24 out of 28), including two large, 13 medium, six small trusts and three teaching trusts. This reflected the significant operational and financial pressures faced by the acute trusts, especially those medium and small acute trusts.
- Regionally, London currently does not have any red-rated trusts, whereas both the Midlands and North regions have 12 respectively, and the South region has four.
- *Mid Staffordshire* is no longer a licensed provider, therefore, the RAF no longer applies.
- *Royal National Hospital for Rheumatic Diseases* previously received a GRR red rating. The trust no longer receives a rating following its acquisition by *Royal United Hospital Bath NHSFT*.
- The ratings for 24 trusts are currently "under review" including seven ongoing investigations.

**COSRR**




- COSRR is intended to identify the level of risk to the on-going availability of key services.
- Although 78 trusts have reported a deficit at Q3 2014/15 which reflected significant financial challenges within the sector, trusts continue to have sufficient cash and other reserves to ensure both financial and service sustainability without any detrimental impact on patient care. Therefore, most of the deficit trust have low continuity of services risks.
- At Q3 2014/15, 35 trusts received a COS risk rating of 1 or 2, including 30 that had a COSRR 1 or 2 in the previous quarter. The additional five trusts with a COSRR 1 or 2 this quarter include three acute trusts *(Gateshead, King's* and *Sunderland)* and two mental health trusts (*Southern Health* and *Norfolk and Norwich*). Among these trusts, 21 are currently subject to enforcement actions.
- Both *Calderdale* and *Oxford Health* have now improved their rating from 2 in previous quarter to 3 this quarter. However, enforcement action still applies to *Calderdale*.

# 4.3 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 23 trusts that are currently under review including seven investigations already launched (see "*overview of FTs under review*").

**Under investigation**

- Investigations are currently opened at seven trusts including four ongoing investigation and three opened since our Q2 report (see "*trusts under investigation*" table below).
- *Norfolk and Suffolk* is now in special measures due to care quality and governance concerns. However, the investigation into its deteriorating finances is ongoing.
- Three previous investigations have now led to new enforcement actions since the end of Q2 2014/15.
- An investigation has now been closed at *Liverpool Women's Hospital NHSFT* after the trust has taken actions to address the issues raised by CQC regarding how it is managed. CQC has since reported improvements.

**Requesting further information**

- Further evidence is being gathered in relation to 17 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 | 9 |
| Third party reports | - |
| Quality governance indicators | - |
| Financial risk | 9 |
| Multiple factors | 4 |
| **Total** | **24*** |

** The figure above include Norfolk and Suffolk NHSFT.*

**Trusts under investigation: ongoing investigations**

| Trust | Main concerns being investigated | Date the investigation opened |
|---|---|---|
| West Suffolk | Deterioration in financial performance | May 2014 |
| Great Western | Deterioration in financial performance | Oct 2014 |
| Yeovil | Deterioration in financial performance | Nov 2014 |
| Taunton & Somerset | Breach of RTT targets | Nov 2014 |
| Norfolk and Suffolk | Deterioration in financial performance | Dec 2014 |
| Norfolk and Norwich | Multiple breaches of operational targets during Q2. | Dec 2014 |
| Basildon | Deterioration in its financial performance | Dec 2014 |

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# 4.4 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 report, 28 trusts had received a GRR red rating, a slight increase from 27 at Q2 2014/15. The change was due to four trusts having enforcement actions applied, one trust having enforcement action removed, and two trusts (HWPH and Mid Staffs) due to acquisition or service transfer, no longer receiving governance risk ratings:
  - *Royal Berkshire NHSFT* was subject to enforcement action in December 2014 due to multiple breaches of the referral to treatment target and deteriorating financial performance.
  - Enforcement action was applied to *Calderdale and Huddersfield NHSFT* in January 2015 due to deterioration in its financial performances and inadequate board governance.
  - Due to the trust's performance against the national A&E waiting time target and deteriorating finances, enforcement action was applied to *the Dudley Group NHSFT* in January 2015.
  - A recent CCQ inspection concluded that care provided by *Norfolk and Suffolk NHSFT* is deemed inadequate, we decided to put the trust in special measure in February 2015, and the Trust is also subject to enforcement action. (1)
  - *Royal National Hospital for Rheumatic Diseases (RNHRD) was* subject to enforcement action during Q2 2014/15. However, the trust has since been removed from enforcement actions following *Royal United Hospital Bath NHSFT's* acquisition of *RNHRD.*
- Nine trusts, subject to enforcement action, continue to be in special measures for failing to provide good and safe care to patients.

**Subject to enforcement action during Q3 2014/15** *(* FT in special measures)*

| Triggering financial concerns at Q3 (4) | Triggering governance concerns at Q3 (4) | Triggering both financial and governance concerns at Q3 (16) | | Existing RAF concerns (4) |
|---|---|---|---|---|
| Bolton | East Kent* | Barnsley | Peterborough & Stamford | Calderstones |
| Burton* | Heart of England | Colchester* | Rotherham | Calderdale |
| Southern Health | Northern Lincolnshire and Goole | Derby | Royal Berkshire | Cumbria Partnership |
| Suffolk and Norfolk* | Stockport | Kettering | Sherwood Forest * | Dudley |
| | | King's Lynn* | Southend | |
| | | Medway * | South Tees | |
| | | Milton Keynes | South Manchester | |
| | | Morecambe Bay* | Tameside* | |

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# 4.5 Other regulatory actions

**CQC warning notices**

- During Q3 2014/15, there were no warning notices issued against FTs.

**Contingency planning and other regulatory work**

- The work carried out by a Contingency Planning Team (CPT) with an aim to develop plans to secure the future services for patients at the Queen Elizabeth Hospital King's Lynn NHS Foundation Trust is now reaching its conclusion. The report, developed in conjunction with the trust, commissioners, and other local stakeholders, is due to be finalised in March 2015.
- A review of health service provision in Milton Keynes and Bedfordshire has now been completed, and a programme board (attended by Monitor) 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 alongside options for the hospital model. An implementation plan for delivery will also be developed in partnership with local stakeholders. The CPT will report to Monitor in spring 2015.
- Our enforcement team has been continuing to help Peterborough and Stamford Hospitals NHS Foundation Trust to restore its financial sustainability since Feb 2013.

**Mergers & acquisitions**

- Royal United Hospital Bath NHS Foundation Trust (RUH) became a foundation trust on 1 November 2014. The trust has been working with Royal National Hospital for Rheumatic Diseases NHS Foundation Trust (RNHRD) since July 2012 regarding RNHRD's financial sustainability concerns. The two trusts jointly applied to Monitor for the acquisition of RNHRD by RUH and after reviewing the plans, Monitor agreed that RUH would be capable of maintaining and enhancing services for patients of RNHRD. The acquisition was approved in January 2015, effective from 1 February 2015, and will protect services for patients whilst providing value for money.

# 5.0 Appendix

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# 5.1 Balance sheet

| As at 31 December | Q3 2014/15 | | Variance to plan | | Q3 2013/14 |
|---|---|---|---|---|---|
| | Actual £ | Plan £ | £m | % | Actual £ |
| Property, Plant & equipment | **20,482** | **21,387** | (906) | -4% | **19,413** |
| PFI assets | 3,864 | 3,785 | 80 | 2% | 3,789 |
| Other non-current assets | 697 | 704 | (7) | -1% | 584 |
| **Total non-current assets** | **25,043** | **25,877** | **(833)** | **-3%** | **23,786** |
| Inventories | 543 | 489 | 54 | 11% | 507 |
| Trade & other receivables | 1,913 | 1,541 | 372 | 24% | 1,788 |
| Accrued revenue | 669 | 475 | 193 | 41% | 617 |
| Prepayments | 516 | 439 | 77 | 18% | 410 |
| Cash & Equivalents | 3,737 | 3,521 | 216 | 6% | 3,747 |
| Other current assets | 118 | 54 | 64 | 118% | 141 |
| **Total current assets** | **7,496** | **6,519** | **977** | **15%** | **7,209** |
| Borrowings | (138) | (139) | 0 | 0% | (105) |
| Trade & other payables | (2,143) | (2,043) | (101) | 5% | (2,025) |
| Accruals | (1,886) | (1,477) | (409) | 28% | (1,674) |
| Deferred income | (666) | (467) | (199) | 43% | (586) |
| Provisions | (256) | (220) | (37) | 17% | (258) |
| Other current liabilities | (831) | (790) | (41) | 5% | (775) |
| **Total current liabilities** | **(5,921)** | **(5,135)** | **(785)** | **15%** | **(5,423)** |
| **Net current assets** | **1,576** | **1,384** | **192** | **14%** | **1,786** |
| Borrowings | (1,960) | (1,979) | 20 | -1% | (1,381) |
| Deferred income | (153) | (156) | 2 | -2% | (152) |
| Provisions | (292) | (252) | (40) | 16% | (258) |
| Leases PFI | (4,151) | (4,049) | (102) | 3% | (4,292) |
| Other non-current liabilities | (204) | (371) | 167 | -45% | (190) |
| **Total non-current liabilities** | **(6,760)** | **(6,807)** | **48** | **-1%** | **(6,273)** |
| **Total funds employed** | **19,859** | **20,453** | **(594)** | **-3%** | **19,299** |
| Retained earnings | 1,073 | 1,672 | (599) | -36% | 1,581 |
| Public Dividend Capital | 13,890 | 13,847 | 43 | 0% | 13,245 |
| Revaluation reserve | 4,803 | 4,917 | (114) | -2% | 4,379 |
| Other reserves | 93 | 17 | 76 | 450% | 94 |
| **Total taxpayers' equity** | **19,859** | **20,453** | **(594)** | **-3%** | **19,299** |

- Non-current assets have increased by £730m since 31 March 2014. In Q3, owned assets of £273m came from the three newly authorised trusts. Owned and donated assets at *Mid Staffs* (£123m) were transferred out to University Hospitals North Midlands NHS trust. In Q2, *Royal Free* took over Barnet Chase Farm NHS trust and this bought in £199m of owned assets, £59m of PFI assets with a corresponding PFI lease liability of £38m.
- The other movements in non-current assets year-to-date came from £1,413m of capital expenditure/additions, £918m of depreciation, £167m of impairment and revaluation losses, £42m of asset.
- Trade receivables at £1.7bn have risen to £372m higher than planned (£136m at Q2, £181m at Q1), and receivable days (the time it takes to collect debts) have increased to 16.0 days against 14 days as at Q2, even further from planned 13.0 days.
- Impairment of gross trade receivables for doubtful debts has slightly reduced to 9.4% (£203m) overall from 10.1% at the start of the year, but varies significantly regionally from a high of 13.4% in London to a low of 6.1% in the South region
- Trade payables at £2.1bn are £101m higher than planned and trade payables days are now 55.5 days (56.8 at Q2,56.3 days at Q1) from 64.2 days at 31 March 2014, but are still slightly higher than the planned 54.5 days.
- Cash and cash equivalents for the sector have fallen steadily this year, falling by £488m up to Q3, (by £385m at Q2, £208m at Q1) but the YTD drop is £216m less than planned. This reflects a gradual overall erosion in the financial resilience of the sector.
- The £476m increase in PDC since 31 March 2014, includes £175m essential liquidity and £23m essential capital support provided to 16 FTs under the distressed provider regime, £144m PDC in newly authorised FTs (*Bath, Bridgewater and Derbyshire Community*) and £172m 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 & Mid Staffs)*

# 5.2 Cash flow

| 9 Months ended 31 December | Q3 2014/15 | | Variance to plan | | Q3 2013/14 |
|---|---|---|---|---|---|
| | Actual £m | Plan £m | £m | % | Actual £m |
| Net Surplus | **(439)** | **91** | (530) | -584% | **174** |
| non operating & non cash items | 1,658 | 1,439 | 219 | 15% | 1,460 |
| working capital movements | (345) | (430) | 85 | -20% | (875) |
| **Net cash inflow/(outflow) from operating activities** | **874** | **1,100** | **(226)** | **-21%** | **759** |
| Capital Expenditure | (1,525) | (1,992) | 467 | -23% | (1,444) |
| Other investing activities | 67 | 141 | (74) | -53% | 44 |
| **Net cash inflow/(outflow) from investing activities** | **(1,458)** | **(1,851)** | **393** | **-21%** | **(1,400)** |
| PDC capital movements | 371 | 384 | (13) | -4% | 176 |
| PDC dividend payments | (253) | (261) | 8 | -3% | (223) |
| PFI interest & capital payments | (319) | (308) | (11) | 3% | (317) |
| Finance lease interest & capital payments | (26) | (36) | 10 | -29% | (27) |
| Loans drawn / (repaid), net | 345 | 363 | (19) | -5% | 275 |
| Other financing activities | (50) | (32) | (18) | 57% | (30) |
| **Net cash inflow/(outflow) from financing** | **67** | **110** | **(43)** | **-39%** | **(147)** |
| **Net cash inflow/(outflow)** | **(517)** | **(641)** | **123** | **-19%** | **(787)** |
| Opening Cash & Equivalents | 4,225 | 4,133 | 92 | | 4,513 |
| Cash & Equivalents in new FTs at authorisation | 29 | 28 | - | 5% | 21 |
| **Closing Cash & Equivalents** | **3,737** | **3,521** | **216** | **6.1%** | **3,747** |

- The cash position at the end of the quarter is £216m better than plan, despite the sector net deficit being £530m worse than planned. Trusts have achieved this by managing their working capital and reducing their spend on capital expenditure.
- On a cash basis, year-to-date capital expenditure is £467m or 23% behind plan, whereas it was 20% behind at Q3 last year.
- Unplanned non-cash item of £219m within the deficit and favourable working capital movements of £85m, together with the capital underspend, countered by cash outflows over plan by £74m in other investing activities and £43m in financing take net cash inflow to £123m more than plan.
- FTs' working capital movements include £177m more deferred income, £364m more accruals and £104m more financial liabilities than planned since the start of the year, against £89m more prepayments, £52m more provisions and £47m more inventories. The net effect of this is that working capital increased by £85m under plan.
- The year-to-date drawdown of PDC capital was only £13m less than planned, but within this was £175m of revenue support and £23m of capex support for distressed FTs, and the unplanned portion of this support was balanced by PDC intended to fund capital expenditure, but not drawn from the DH.
- Overall, FTs on average held enough cash to pay for 32.5 days operational expenditure, which is reduced from 34 days at Q2 2014/15 and 38 days as at the start of the financial year.
- Cash is unevenly distributed across the regions, with the average balance per FT varying from a high of £39m in London to a low of £18m in the South region.

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# 6.0 Glossary and end notes

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# 6.1 End notes

| | |
|---|---|
| 1 | All financial information in this report is year-to-date and based upon unaudited quarter 3 monitoring returns from the 149 NHS foundation trusts at 31 December 2014 including three newly licensed foundation trusts and the final period of operation for Mid Staffordshire NHSFT for part of the quarter. For three newly authorised 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 | 100 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.<br>122 foundation trusts report performance against the non-admitted and incomplete pathway targets and 106 against the admitted target. |
| 7 | 81 foundation trusts report performance against the breast cancer: 2 week wait target<br>99 foundation trusts report performance against the GP referral: 62 day wait target<br>95 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*. |

# 6.2 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.<br>**Red 2 calls** - These are serious but less immediately time-critical and cover conditions such as stroke and fits.<br>**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. |

# 6.2 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.<br>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. |
| FRR | Financial Risk Rating. This was the measure of financial risk used by Monitor as a regulatory tool up until 30 September 2013, at which point it was replaced by the COS risk rating – see 6.2. |
| 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.<br><br>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) |

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# 6.2 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:<br><br>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.<br>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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