

To: The Board

For meeting on: 28 May 2015

Agenda item: 4

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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 £349m², 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.

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Making a difference for patients:

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