



A governor's guide to Monitor's Risk Assessment Framework

June 2014



Contents

Introduction	1
Regulation and oversight	2
Risk Assessment Framework	3
Continuity of services	4
The governance rating	6
About us	8

Introduction

Foundation trust governors are expected to challenge the board of directors and hold non-executive directors to account. To ensure this role is performed effectively and proportionately, foundation trust governors should understand, and be assured upon, the effectiveness of the foundation trust's corporate governance arrangements.

This guide introduces Monitor's Risk Assessment Framework (RAF) and provides key challenge questions foundation trust governors may ask to help them discharge their statutory responsibilities.

Understanding the RAF is crucial if governors are to fulfil their duties under the Health and Social Care Act 2012. This includes being aware of licence conditions for their foundation trust and ensuring that the foundation trust complies with these. In particular, governors should:

- proactively spot failures or potential risks that could lead to breaches in the trust licence condition
- request action from the board of directors in respect of these risks
- effectively hold the non-executive directors, individually and collectively, to account for the performance of the board of directors
- represent the interests of the foundation trust members and the wider public
- fully understand any formal interventions by Monitor.



Regulation and oversight

While recognition and awareness of the RAF is important, it forms one element of the wider external governance, regulation and professional oversight of performance and quality in NHS foundation trusts.



Risk Assessment Framework

Monitor exercises a range of powers granted by Parliament. This includes setting and enforcing a framework of rules which is implemented, in part, through issuing licences to NHS-funded providers.

The licence stipulates the specific conditions that the NHS provider must meet to continue to operate, including those in respect of:

- **continuity of services** – a measure of financial sustainability and resilience
- **governance** – how a foundation trust oversees care for patients, delivers national standards, and remains efficient, effective and economic

From 1 October 2013, Monitor changed the way it assessed these two criteria. It introduced the RAF to track foundation

trusts' compliance with the continuity of services and governance conditions in their provider licences. The RAF replaces the previous compliance framework and underlines the equal emphasis being placed by regulators on both quality and finance.

As with the old risk assessment, each provider will be given a rating for continuity of services and a rating for governance to indicate where there is a cause of concern at a trust and to determine the extent of any intervention required by Monitor.

Overview of the changes in approach to assessment

Criteria	Old compliance framework assessment	New RAF assessment	Aim
Continuity of services	Suite of indicators based on the historical performance of the provider, eg earnings before interest, tax, depreciation and amortisation (EBITDA)	Two indicators focusing on: <ul style="list-style-type: none">• liquidity• ability to service capital and debt	To indicate the level of risk to the financial sustainability of a provider
Governance	Monitor's assessment of the governance arrangements at a foundation trust	Consideration of a number of specific areas including the assessments of other regulators and groups	To indicate whether standards of governance may be falling short of those required of a foundation trust as set out in FT4 of the NHS Provider Licence Standard Conditions

Continuity of services

The purpose of this measure is to identify any significant risks to the financial sustainability of the foundation trust which would endanger the delivery of key services.

It assesses two common measures of financial robustness: liquidity and capital servicing capacity. Each measure is given an equal weighting to calculate the continuity of services assessment.

Monitor also requests exception reporting on material in-year changes, for example the loss of a contract. In these circumstances, it may apply overriding rules and decide to take further action such as request a financial re-forecast or further information.

If a foundation trust looks likely to fail financially, Monitor may take steps to reconfigure services to ensure they continue to be available to local patients. This may take place either by agreement with other parties in the local health economy or under the guidance of a trust special administrator.

Measure	Definition	Explanation	Rating category								
Liquidity ratio (days) $\frac{\text{Working capital balance} \times 360}{\text{Annual operating expenses}}$	Number of days of operating costs held in cash (or cash equivalents), including wholly committed lines of credit available for draw down	The number of days the trust could pay its annual operating expenses (such as pay and medicines) with its available short-term net working capital (eg cash plus money owed to the trust, less money it owes)	<table border="1"> <thead> <tr> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td><0</td> <td>0</td> <td>10</td> <td>30</td> </tr> </tbody> </table> <p>High risk is indicated by a low number of days</p>	1	2	3	4	<0	0	10	30
1	2	3	4								
<0	0	10	30								
Capital servicing capacity (times) $\frac{\text{Revenue available for capital service}}{\text{Annual debt service}}$	The degree to which the organisation's generated net income covers its financing obligations	The number of times that the trust's income covers its financing obligations, such as debt, interest and loan repayments (known as its annual debt service)	<table border="1"> <thead> <tr> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td><1.25</td> <td>1.25x</td> <td>1.75x</td> <td>2.5x</td> </tr> </tbody> </table> <p>High risk is indicated by a low multiple</p>	1	2	3	4	<1.25	1.25x	1.75x	2.5x
1	2	3	4								
<1.25	1.25x	1.75x	2.5x								

Regulatory implications of the continuity of services risk rating

1 High risk

- Financial distress evident
- Action taken to ensure continued provision of services concerns

2 Medium risk

- Financial performance puts provider at medium risk
- Subject to monthly monitoring
- Potential licence breach and investigation

2* Medium risk

- Applied where rating of 2 is given, and likelihood of further deterioration in financial position low
- Specific circumstances give no immediate concerns

3 Emerging risk

- Emerging or residual financial concern
- May be subject to monthly monitoring with a limited amount of information being provided on a monthly basis

4 Low risk

- Normal monitoring based on size and risk assessment
- Likely to be quarterly



Questions for governors

- Is the board monitoring all aspects of the continuity of key services assessment?
- Is there an actual or forecast deterioration in financial performance? Are there action plans in place to address these?
- Are there any other indicators of financial risk, such as extended time taken to pay creditors or an increase in debtors?
- Is there a requirement for external cash support in the current or future years?
- How well can directors explain the financial performance of the trust and the key reasons for variances?

Further reading



In November 2013, Grant Thornton published 'Alternative therapy: Strengthening NHS financial resilience' which sets out our insight into how resilient NHS finances are and provides a summary of the key themes and best practice that have emerged from our national programme of health reviews.

It identifies that most trusts have adequate arrangements for financial control and governance, but that many could do more to strengthen their planning of finances at a more strategic level, which in turn positively impacts upon financial performance.

The governance rating

All FTs should be well-governed, including how they oversee care for patients, deliver national standards and remain efficient, effective and economic.

Monitor's governance rating describes its view of the governance of a foundation trust and is informed by five categories:

- 1 Performance against selected national access and outcomes standards, including A&E waiting times, referral-to-treatment targets and rates of C.difficile infection
- 2 Care Quality Commission judgements on the quality of care provided
- 3 Relevant information from third parties, including patients
- 4 Quality governance indicators, including patient satisfaction, staff turnover and staff sickness absence rates
- 5 The degree of risk to continuity of services and other aspects of risk relating to financial governance

Monitor also recommends that trusts commission an independent review of their governance arrangements once every three years. If these reviews raise concerns, Monitor will consider the trust's response and may intervene if they consider it appropriate.

Monitor released guidance on these reviews in May 2014, entitled 'Well-led framework for governance reviews: guidance for NHS foundation trusts', and this sets out examples of good governance under four domains: strategy and planning; capability and culture; process and structures; and measurement. Importantly, it also brings quality governance and board governance together.

Monitor will use the information gathered under these five categories (as well as any other relevant information) to assess the strength of governance and assign a governance rating.

Governance rating



Green

- No category triggering concern
- No action taken

Rating replaced by a description of status and action being taken where issues identified

- Identify concern and request further information
- If serious enough, concerns may trigger formal investigation
- Following investigation determine if a breach has occurred

Red

- Enforcement action being taken

Further reading



Grant Thornton's third annual review into NHS governance issued in March 2014, aims to assist CCG governing bodies and trust boards assess their arrangements, in the context of the governance and leadership challenges set down last year in the Francis Report and Berwick and Keogh reviews. 'Staying in the saddle' draws on a desk-top analysis of over 200

NHS bodies, supplemented by the thoughts of over 160 NHS leaders.

It found that a number of NHS organisations are making good progress on governance, under very difficult circumstances, and the report highlights examples of good practice. However, many NHS bodies are yet to adopt the full suite of measures necessary to navigate the current structural challenges affecting the public healthcare system.

Questions for governors

- Do you understand how the board of directors monitors all aspects of the trust's governance arrangements?
- Are there indicators of risk, such as poor performance in NHS targets? Are there action plans in place to address this performance?
- Is the board assured of the data quality supporting its reported performance?
- Are you aware of the results of CQC inspections? What action plans have been put in place to address any recommendations?
- Are plans consistent with your experiences as patient and staff representatives?
- How does the trust ensure that there are appropriate practices in place for patients to raise complaints and then ensure these are responded to?
- Has the trust commissioned an independent review of its governance arrangements? Have any recommendations from this been actioned?

About us

Grant Thornton is proud to work with public sector healthcare organisations, providing a full range of integrated audit, assurance, tax and advisory services to enable our clients to be prepared for the future.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 24 locations nationwide. While we understand regional differences and can respond to the needs of NHS organisations, our clients can also have confidence that our team of over 400 NHS specialists is part of a firm led by more than 185 partners and employing more than 4,200 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

We have a well-established market in the public sector and have been working with NHS bodies for 30 years. Our public healthcare clients include acute, mental health, community and specialist trusts and foundation trusts, clinical commissioning groups, commissioning support units, government departments, arm's length bodies and regulators. We have a strong reputation both as the largest supplier of audit and related services to the NHS and as financial advisers consistently focused on delivering specific, practical, solution-led services in response to clients' needs.

Our unparalleled passion for the health sector is demonstrated, among other things, through our value proposition – open access to NHS specialist colleagues, with strong links to regulators, within a competitive audit fee. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not through pre-packaged products and services. Our approach combines a deep knowledge of the NHS, supported by an understanding of wider public sector issues. It is drawn from working with associated delivery bodies, relevant central government departments and private-sector organisations operating in the sector.

We take an active role in influencing and interpreting policy developments affecting the NHS and responding to the consultation documents of government and other agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We are also corporate members of the Healthcare Financial Management Association, regularly contributing to HFMA conference and training activities, and speaking on issues impacting the sector at both a national and regional level.



Contact us

Bill Upton

Head of healthcare
T 020 7728 3453
E bill.upton@uk.gt.com

Nicola Coombe

Author
T 0121 232 5206
E nicola.coombe@uk.gt.com

London, South East and Anglia

Paul Hughes

Director
T 0207 728 2256
E paul.hughes@uk.gt.com

South West

Barrie Morris

Director
T 0117 305 7708
E barrie.morris@uk.gt.com

Wales

John Golding

Partner
T 0117 305 7802
E john.golding@uk.gt.com

Midlands

Jon Roberts

Partner
T 0121 232 5410
E jon.roberts@uk.gt.com

North

Sarah Howard

Partner
T 0161 953 6370
E sarah.howard@uk.gt.com

Scotland

Gary Devlin

Director
T 0131 659 8554
E gary.devlin@uk.gt.com



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently. This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.

www.grant-thornton.co.uk

EPI1102

