

# Monitor

Making the health sector  
work for patients

## Meeting the needs of patients: Improving strategic planning in NHS foundation trusts



## **Who we are**

Monitor is the sector regulator for health services in England. Our job is to protect and promote the interests of patients by ensuring that the whole sector works for their benefit.

We exercise a range of powers granted by Parliament which include setting and enforcing a framework of rules for providers and commissioners, implemented in part through licences we issue to NHS-funded providers.

For example, we make sure foundation hospitals, ambulance trusts and mental health and community care organisations are run well, so they can continue delivering good quality services for patients in the future. To do this, we work particularly closely with the Care Quality Commission, the quality and safety regulator. When it establishes that a foundation trust is failing to provide good quality care, we take remedial action to ensure the problem is fixed.

We also set prices for NHS-funded services, tackle anti-competitive practices that are against the interests of patients, help commissioners ensure essential local services continue if providers get into serious difficulty, and enable better integration of care so services are less fragmented and easier to access.

## **The NHS needs to plan and implement change**

A number of future pressures threaten to overwhelm the NHS. This is the stark warning of the recent “Call to Action” issued by NHS England. The population is ageing; long-term conditions are increasing; costs and public expectations continue to rise.

To survive the NHS has to change and foundation trusts need to play a leading role. They must develop and implement bold and transformative long-term strategies and plans for their services, or face a financially unsustainable future in which the safety and quality of patient care will decline.

The ability of NHS foundation trusts to develop and implement strategic and operational plans is critical if they are to deliver effective and sustainable responses to current and future challenges.

This document is aimed at NHS foundation trusts; in it we look at what strategic and operational planning can achieve and how the sector can be supported in moving towards these goals.

## **Good practice in strategic planning needs to be shared and embedded across the NHS foundation trust sector**

As sector regulator, we work to help to improve the quality of patient services so they are clinically effective, safe and provide a positive experience for everyone who uses them. We are guided by one simple principle: we will do whatever is ultimately in the best interests of patients. It is therefore vital to Monitor that we identify the barriers NHS foundation trusts face in developing their strategic and operational plans and, where those plans are inadequate, that we help providers achieve standards of planning that will deliver excellence for patients.

Earlier this year we commissioned independent research<sup>1</sup> to assess the current quality of strategic plans and planning capabilities at NHS foundation trusts, based on a sample of 30 organisations. While the review identified some clear examples of good practice there was significant variation across the sector.

The vast majority of the trusts reviewed clearly understood the importance of planning and were effective in setting and monitoring financial and clinical goals. However, only a small number were found able to perform a full range of planning tasks to a high standard and had produced well articulated, evidence-based longer term plans clearly aimed at enhancing patient outcomes and addressing, where relevant, clear areas of underperformance. In contrast, a much larger number clearly struggled with some of the most important planning tasks; and in a limited number of cases, plans continued to overlook long-standing problems.

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<sup>1</sup> Available in full: [Foundation Trust Strategic Planning Assessment Research Findings Report](#), October 2013, PwC.

In light of these findings, the independent research therefore concludes that the quality of strategic planning will need to improve significantly at the majority of NHS foundations trusts if they are to secure their future financial and clinical sustainability and deliver good quality care to patients.

Additionally, through the Annual Planning Review (“APR”) process, Monitor looked at the accuracy of financial planning across the whole of the NHS foundation trust sector. We have found that the accuracy of short term planning is also generally weak. Too many trusts continue to assume in their plans an initial deterioration in their finances will be followed by a sustained recovery in years 2 and 3 without clear evidence of how they will achieve this in future and why this will differ from past performance which has generally failed to deliver such improvements.<sup>2</sup>

## **What good quality strategic planning can achieve**

Strategic planning is the process of developing an organisation’s purpose, aims and objectives. It includes the allocation of related resources and responsibilities, drawing on robust evidence and setting challenging but feasible timescales for achieving goals.

Across business sectors, including health care, evidence shows that strong strategic planning delivers significant benefits for organisations, their stakeholders, their staff and the customers – or in the case of health care, the patients – that they serve. In particular, carrying out strategic planning at relevant points in the development of an organisation will guide it through decision-making about service provision and resource allocation, and help executives and non-executives to govern effectively.

It is important that NHS foundation trusts use strategic planning to guide and inform the development of their organisations so they are able to adapt to the changing and increasingly challenging English health care sector and continue to give patients high quality care.

To plan effectively NHS foundation trusts must have a clear understanding of trends in their local health economies and their future role and position within them. They will need to work with commissioners to understand disease prevalence, existing and potential demands for services, and commissioning intentions. With this analysis informing strategic planning, trusts can determine which services they are best able to provide sustainably and identify the most efficient and effective way of delivering them in order to maximise the quality and productivity of care. This will also require NHS foundation trusts to work collectively with other providers to form strategic networks in order to deliver more integrated care across their health economies.

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<sup>2</sup> This trend is observed on an EBITDA (Earnings before interest, tax, depreciation and amortisation) margin basis.

## Harnessing the skills and resources to plan effectively

Strategic plans are only as strong as the information they are based on and the leadership which drives them forward.

Strategic planning is a cornerstone of strong corporate governance at a trust. The role of an NHS foundation trust's board is fundamental to the development, delivery and monitoring of a sustainable, evidence-based strategic plan. Boards will need to prioritise long-term strategy development alongside their day-to-day operational duties. Board members should be able to articulate the strategic direction of their organisation and be clear about the size and scope of future services and how they will be delivered.

However, the research we commissioned found significant variation in the quality and governance of strategic planning between NHS foundation trusts and across a broad range of detailed planning tasks. In particular it notes that:

- there is significant scope for the sector to improve service-level thinking based on better analysis and forecasting of trends in local health economies;
- the long-term goals of many NHS foundation trusts are too general to be strategically useful or provide a meaningful framework for decision-making;
- few trusts are proactively developing longer term initiatives in response to the changing health care environment; and
- many NHS foundation trusts lack the processes to review and adapt their plans and strategies to make sure they remain relevant and achievable.

## Conclusion and way forward

The hard-hitting conclusion<sup>3</sup> of [the independent research](#) is that the current quality of strategic planning in the majority of NHS foundation trusts is inadequate to respond to the significant challenges facing the health care sector. This is consistent with our own research findings which indicate that the accuracy of planning also needs urgent improvement.<sup>4</sup>

The risks of poor planning – to the financial and clinical sustainability of NHS foundation trusts and to the delivery of patient services – will only increase as the NHS is ever more tested. Significant improvement is therefore required to the way in which NHS foundation trusts plan to respond to the challenges facing them and how they will continue to deliver good quality patient care and outcomes.

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<sup>3</sup> For a more detailed summary of main findings and conclusions see Annex 1.

<sup>4</sup> The methodology and findings of Monitor's review of planning accuracy are set out in Annex 2.

To help bridge the gap between current abilities and the robust planning needed, we will work with the NHS foundation trust sector to highlight why and where improvement is needed. This assistance will include:

- developing the guidance, tools and support that organisations need to strengthen their internal processes and capacity for planning; and
- from 2014, strengthening our Annual Planning Review (APR) process by making sure it provides the help and overview of organisational challenges and long-term plans that trusts need to deliver and sustain good quality patient care.

## **Annex 1: Summary of main findings and conclusions from PwC report Foundation Trust Strategic Planning Assessment, October 2013**

### **Background**

We commissioned PwC to assess the quality of strategic planning in NHS foundation trusts, and to suggest actions that Monitor could take to remedy any quality shortfalls.

PwC first developed a set of principles for good practice in strategic planning. They then conducted a programme of qualitative research (including desktop reviews of NHS foundation trusts' published plans and extensive interviews with trust management) to assess actual performance against those principles.

Their finding is that the overall quality of strategic planning in the NHS foundation trusts sector needs significant improvement. Across the sector there are widespread weaknesses in the forecasting of commercial, financial and service provision trends. The current quality of strategic planning in the majority of trusts is therefore inadequate to respond to the long term challenges posed by the changing health sector environment.

While a small number of NHS foundation trusts carry out a full range of planning tasks to a high standard, the majority fail to undertake some key elements of strategic planning, while a small number display very significant weaknesses. Geographic location and time since authorisation did not explain the failings.

### **Finding 1: There is significant scope to improve service level thinking based on better analysis and forecasting of trends in local health economies**

NHS foundation trusts generally understand this to be an important part of strategic planning and attempt some level of evidence gathering, analysis and subsequent strategic positioning as part of the planning process. However, they struggle with essential tasks relating to analysing the external sector environment.

Many trusts struggle with the most important tasks related to strategic positioning – the depth and breadth of evidence gathering and analysis, the forecasting of trends forward and consequently the clarity of both current and projected strategic positioning has significant potential for development.

Weaknesses in current performance impact on the ability of NHS foundation trusts to assess their relative performance and position compared with competitors, and to forecast how this may evolve. Consequently, their ability to set achievable and sustainable ambitions and initiatives is limited.

There is good evidence that NHS foundation trusts gather and analyse data related to (i) key performance indicators for clinical quality; (ii) high level trends in the health economy in the short and medium-term; and (iii) organisational-level financial

performance. However, this data is rarely assessed at a service level, or in relation to performance against previous plans.

There is less evidence that trusts are able to perform the most important strategic positioning tasks. They struggle to (i) forecast demand and competitive dynamics; (ii) develop longer term forecasts based on scenario building; (iii) gain detailed insight on local commissioning priorities and strategies; (iv) carry out service specific analysis; or (v) clearly and concisely articulate the implications of future trends on their strategic positioning.

### **Finding 2: The long-term goals of many NHS foundation trusts are too general to be strategically useful or provide a meaningful framework for decision-making**

All NHS foundation trusts develop and articulate high level strategic goals, usually for a three-year period. Typically this takes the form of a vision with approximately 5-10 supporting strategic and financial goals.

However, in many organisations these goals are insufficiently specific to be effective and are not explicitly evidence based, meaning they are sometimes unrealistic. PwC also identified a number of trusts where stated goals were weak and lacked ambition. The quality of planning would be improved if goals were more specific and capable of being monitored, as this would provide greater organisational focus and clarity in strategic direction. It would also provide a more meaningful framework to guide ongoing management decisions around priorities and trade-offs.

Most NHS foundation trusts are effective in setting goals that cover financial and especially quality factors. However, there is significant potential for further development, particularly in phrasing goals in a way that allows progress to be monitored – this is important in defining effective ambitions because it ensures they provide a meaningful framework to guide organisational behaviour.

There is also scope for further development through (i) basing goals on the strategic positioning exercise to ensure they are feasible and achievable, while ensuring some stretch and ambition; (ii) setting organisational goals that incorporate commercial elements; and (iii) articulating the gap between the current situation and a future vision.

### **Finding 3: Few NHS foundation trusts are proactively developing longer term initiatives in response to the changing health care environment**

While NHS foundation trusts demonstrate the ability to identify and set specific short-term quality and financial initiatives to build towards strategic ambitions, commercial initiatives relating to service level developments are less evident.

Long-term planning tends to be less sophisticated, with limited evidence that trusts are proactively seeking solutions to the longer term challenges facing the health care

sector. However, PwC note that long-term planning was more evident in subsequent discussions with trusts than in their strategy documents. Also, there is little evidence of prioritisation of initiatives on the basis of strategic fit, impact or feasibility.

The lack of commercial initiatives, prioritisation, and longer term planning is likely to limit NHS foundation trusts' ability to achieve their strategic ambitions and to meet future challenges.

Though performance varied across different aspects of planning (eg, financial, commercial), most trusts were effective in (i) clearly articulating potential risks to their initiatives and actions they will take to address them, and (ii) gaining good internal engagement and review of initiatives, from clinicians and other stakeholders.

The most important development points relate to defining longer term initiatives, particularly relating to service configuration, and clearly defining robust and specific commercial initiatives.

There is also general scope for potential development around (i) prioritising initiatives by strategic fit, feasibility and impact; and (ii) greater external review and input in the generation of initiatives.

#### **Finding 4: Many NHS foundation trusts lack processes to review and adapt their plans and strategies to ensure they remain relevant and achievable**

Where NHS foundation trusts have developed and agreed initiatives, they have been effective at planning how to implement and communicate them within their organisations. However, they rarely articulate processes to review and adapt their plans and strategies on an ongoing basis, which is important for ensuring they remain relevant and responsive to the changing external environment. It was not possible, however, for PwC to assess how effectively monitoring is carried out on an ongoing basis given the limitations of the research, although discussions with trust executive teams did indicate that it is frequent, with board-level review and accountability.

PwC found there is less focus on commercial aspects in implementation planning and monitoring, and where present there tend to be fewer timescales and performance indicators that could enable effective monitoring. While this suggests that NHS foundation trusts are effective in integrating identified initiatives into every day activities, they lack processes to adapt to change and ensure their strategies remain relevant and achievable.

There is good evidence that, allowing for the current limited ability in setting initiatives and ambitions, most trusts (i) formalise identified initiatives into robust plans that can be monitored; (ii) establish clear monitoring processes for them; and (iii) demonstrate reasonable efforts to communicate short-term priorities to internal stakeholders.

The most marked improvement in performance could be achieved by developing further ongoing strategy reviews to ensure trusts' strategies are responsive to internal and external change. Additionally, processes could be further improved by (i) a greater inclusion of commercial elements in implementation plans; (ii) a more explicit recognition of individual responsibilities for delivering initiatives; and (iii) a clearer articulation of the process for responding to under and over performance.

## Annex 2: Monitor's review of the NHS foundation trust sector's accuracy of planning

This year Monitor carried out a review of the sector's ability to deliver against key financial metrics in the three-year annual planning review (APR) templates. We focused on a limited number of key criteria, notably:

- financial performance at an operating and surplus level (this included looking at key areas such as revenue and staff costs);
- capital expenditure; and
- cost improvement plans.

Our review found a widespread weakness in accurately forecasting financial performance even one year into the future:

- Taken together, NHS foundation trusts have successively forecast for a deterioration in their financial performance<sup>5</sup> in year one followed by a significant recovery in subsequent years. Over the period of our review, the sector's forecasted deterioration has generally occurred, but the expected recovery has never been achieved.
- In addition to the overall position, individually most NHS foundation trusts have a relatively poor track record of delivering against their plans even in year one. At individual trust level, there does not appear to be a single clear explanation for this recurrent under-performance against plans. For example, in some cases it has been the failure to deliver cost improvement plans ("CIPs") in others due to a failure to adequately manage staff costs. This is suggestive of widespread weaknesses in planning and performance evaluation across the sector.
- There is also anecdotal evidence that, as a whole, the sector is weak at forecasting trends in patient and treatment activity and fails to develop appropriate plans to meet its future capacity needs. Instead, many trusts tend to add additional treatment capacity in reaction to short-lived increases in activity and often, therefore, at an inflated cost.

Additionally:

- the sector has a poor track record of delivering its year one capital expenditure plans (on average, spending only around 75% of what it had planned to spend);

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<sup>5</sup> This trend is observed on EBITDA margins (Earnings before interest, tax, depreciation and amortisation as a percentage of revenue).

- the sector has a track record of significantly over-delivering against surplus margin despite a trend of under-delivery at operating level; and
- financial and other data was incomplete or inaccurate in a number of plans making review difficult or impossible.

### Methodology and conclusion

We have used the criteria and key findings above to inform our approach to assessing the accuracy of planning in NHS foundation trusts. For all trusts authorised as at 1 April 2013, we identified the following groups:

- Weakest planners** who have consistently failed to achieve planned operating earnings as a percentage of revenue by a wide margin.<sup>6</sup>
- Over-cautious planners** who have consistently and significantly outperformed their plans across multiple periods; and
- Overly optimistic planners** who assume the largest increase in earnings as a percentage of their revenues over the three forecast years when there is no clear supporting evidence that this is achievable.

The table below demonstrates the distribution of these groups across the NHS foundation trust sector:

| Group  | No. of NHS foundation trusts | % of NHS foundation trusts |
|--|------------------------------|----------------------------|
| 1. Weakest planners and Overly optimistic planners | 46                           | 32%                        |
| 2. Weakest planners                                | 52                           | 36%                        |
| 3. Over-cautious planners                          | 15                           | 10%                        |
| 4. Not an outlier (ie, those broadly on plan)      | 32                           | 22%                        |
| <b>Total</b>                                       | <b>145</b>                   | <b>100%</b>                |

The large number of NHS foundation trusts that demonstrated some weakness in planning (78% of the sector) combined with other findings, including the high degree of variance between plans and outturns, led us to conclude that there is widespread weakness in both short-term operational and longer term strategic planning in the sector.

<sup>6</sup> This is based on a historical EBITDA margin error calculated as the absolute difference in actual EBITDA margin compared to plan.



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