Monitor

Making the health sector work for patients

Guidance for the Annual Planning Review 2014/15

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About Monitor

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.

Executive summary

Introduction

Rising health care demand, rising costs and flat real funding mean the NHS could face an estimated £30 billion financial shortfall by 2021[1]. We have worked with our national partners NHS England and the NHS Trust Development Authority to estimate the development of this unprecedented "affordability challenge" and understand how we can help the health care system to respond. Forthcoming changes to pensions and the planned pooling of some NHS spending with local authorities in 2015/16 through the Better Care Fund (previously known as the Integration Transformation Fund) are likely to bring the affordability challenge to an unprecedented peak in 2015/16.

Foundation trusts are already making enormous efforts to meet the affordability challenge, for example, through Quality, Innovation, Productivity and Prevention (QIPP) and Cost Improvement Programmes (CIPs). But our recent research[2] makes it clear that foundation trusts will have to do more than just improve the productivity within existing service configurations at individual providers to meet future NHS efficiency requirements. To be confident of providing high quality care for patients on a sustainable basis, foundation trusts need to work with commissioners to transform the way they deliver services across the system (through measures identified at a national and a local level)

According to the findings of our research, delivering the right care in the right setting and developing new ways to deliver high quality care are the two main opportunities for transformational change available to foundation trusts. From this perspective, the Better Care Fund also represents an opportunity for local health economy (LHE) partners to work together on delivering this transformational change. Successfully meeting the affordability challenge will depend on excellent and co-ordinated strategic planning.

However, Monitor's recent review of strategic planning at foundation trusts concludes that there are significant opportunities to improve strategic planning at the majority of foundation trusts[3].

Monitor considers at a minimum, the following steps are required to develop a robust strategic plan:

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[1] see Monitor's report *Closing the NHS funding gap: how to get better value health care for patients* available at http://www.monitor.gov.uk/closingthegap

[2] see Monitor's report *Closing the NHS funding gap: how to get better value health care for patients* available at http://www.monitor.gov.uk/closingthegap

[3] see *Meeting the needs of patients: Improving strategic planning in NHS foundation trusts*, available at http://www.monitor-nhsft.gov.uk/information-nhs-foundation-trusts/planning-and-reporting-processes/annual-planning

- put in place a robust planning process and, in particular, ensure sufficient and appropriate engagement with the key stakeholders within the Local Health Economy (LHE);
- assess the risks to sustainability of high quality services in conjunction with LHE stakeholders by drawing on accurate inputs that have been analysed and presented correctly;
- assess the options available to address the identified sustainability risks in conjunction with LHE stakeholders and make choices on which option(s) are most appropriate;
- define a vision for sustainability and develop the key initiatives which underpin this, where appropriate in conjunction with LHE stakeholders; and
- set out a plan for delivery including financial projections which are internally consistent and based on credible assumptions.

While Monitor does not intend to be prescriptive about the content of individual foundation trust strategic plans, our review seeks to understand the work that foundation trusts have undertaken against each area above. We will also expect plans to outline how, when implemented, they result in the delivery of high quality care for patients on a sustainable basis.

Many of the resulting strategic initiatives, such as service redesign and cross cutting enablers, will need to be developed and implemented at an LHE level. In response, we are therefore calling for an iterative process of engagement by foundation trusts with their LHE partners. We consider this engagement to be central to the development of a robust strategic plan.

We recognise that meeting these expectations will take considerable board attention at foundation trusts. We also understand that day-to-day pressures make it hard for boards to treat strengthening strategic planning as a priority. However, improving planning is an essential first step towards transforming services, a goal that NHS foundation trusts have to achieve if they are to continue to provide high quality care to NHS patients for years to come. This is why supporting the sector to improve strategic planning is one of Monitor's own strategic initiatives for 2014/15.

Key changes to the 2014/15 Annual Planning Review

As part of this initiative, we have upgraded Monitor's annual planning review process to focus more closely on the strategic element of plans and to understand how foundation trusts intend to address the unique challenges in 2015/16 from both an operational and strategic point of view.

As set out with NHS England and the NHS Trust Development Authority in our joint letter on 4 November, we are making the following key changes:

- Monitor will work with NHS England and the NHS Trust Development Authority to reconcile key commissioner and provider planning assumptions to highlight any LHEs where there are major planning divergences; and
- Monitor will divide its annual plan review into two distinct phases, the first focused on operational planning, and the second focused exclusively on strategic planning.

  Phase 1 – Submission 4 April 2014 – Monitor review April to May 2014

  The first phase of the Monitor review will assess the strength of foundation trusts' operational plans to address the two-year short-term challenge to 2015/16. During this phase, we will require two year supporting financial projections and we will seek to understand the degree to which foundation trusts have started planning for, and have already begun implementing, transformational initiatives.

  Phase 2 – Submission 30 June 2014 – Monitor review July to September 2014

  The second phase of the Monitor review will focus on the robustness of foundation trusts' strategies to deliver high quality patient care on a sustainable basis. During this phase, we will ask foundation trusts to present five year financial projections and we will particularly focus on the degree to which each foundation trust has developed realistic transformational schemes and aligned its plans with those of other actors within the LHE.

The outcome of our reviews

Monitor will provide initial feedback to foundation trusts following the first phase review (May 2014) and final feedback will be provided on completion of the second phase review (October 2014).

Monitor is working closely with both NHS England and the NHS Trust Development Authority to ensure that foundation trust plans can deliver high quality sustainable services across LHEs, and that the actions of any organisation does not generate behaviours that work against patients' interests.

Where we identify any significant weakness in planning, or we judge that a foundation trust is not adequately addressing risks to its stability or sustainability, we will take appropriate regulatory action. For the first time, this could include requiring a foundation trust to resubmit its plan.

Purpose of this guidance

This following guidance sets out more detail on each of the areas discussed above and other aspects of the 2014/15 planning round. We would like in particular to draw readers' attention to Section 1, which sets out the planning assumptions for the

2014/15 planning round (including the expected tariff efficiency factor) and how we have reached them, and Section 7, which contains a self-assessment tool to help support strategic planning at foundation trusts. We strongly recommend foundation trusts to use the tool as part of its process to develop its 2014/15 plans.

Contents and document outline

This document is Monitor's guidance on the 2014/15 planning round. This guidance covers Monitor's expectations for foundation trusts and sets out details of our forthcoming Annual Planning Review (APR) process. The sections included in this guidance are outlined below.

1 Planning assumptions

1.1 Section overview

This guidance aims to provide the sector with more certainty over the scale and nature of the challenge to delivering high quality care for patients on a sustainable basis. Understanding this challenge is critical to robust strategic planning.

1.2 Introduction

When developing plans, commissioners and providers must factor in assumptions about how fast costs, demand and commissioning budgets will rise. If the rate of growth in costs and demand is greater than budgets, then they must work out how they can respond while improving quality of care.

We have worked with our national partners the NHS Trust Development Authority and NHS England to develop assumptions on the rates of cost, demand and budget growth, which together we call the “affordability challenge”. These assumptions show that the gap between budgets and projected pressures will rise to an unprecedented level over the next five years.

This means that even with continued tight control of pay and prices across the sector, delivering better patient care will require plans which:

- deliver greater gains in the efficiency of individual providers through redesign of individual patient services; and
- make a step change in the efficiency of the system as a whole by completely redesigning care pathways to transform care quality outside of hospitals.

We have also developed assumptions on this efficiency opportunity.

These planning assumptions presented in this section are intended for commissioners and providers[4] to use when working together to develop credible strategic plans which consistently raise the quality of patient care over the next five years.

1.3 The Affordability Challenge

Every year, pressures on the NHS grow. As the population grows and ages, we have more frail elderly and a greater incidence of chronic disease requiring different patterns of care. Innovations in medicine continue to transform what it is possible for the NHS to provide beyond the expectations of previous generations. And the public rightly expects ever higher standards of safety, quality and access.

[4] Including acute, mental health, community and primary care providers.

In estimating the scale of the challenge, we have therefore considered the path of likely input cost inflation (pay and procurement), activity growth, known policy commitments, and the overall NHS budget settlement. For all these factors, the numbers reflect our views and those of our national partners, the NHS Trust Development Authority and NHS England.

Allowing for these pressures suggests that, even with extremely tight control of pay and prices from the centre, the "affordability challenge" for the NHS over the next five years will be unprecedented, as shown in Table 1 below. If input costs rise more quickly than shown in Table 1, or unfunded new policy commitments are made, the scale of the affordability challenge for local NHS organisations would increase still further.

Table 1: the total affordability challenge

	2014/15	2015/16	2016/17	2017/18	2018/19
Affordability challenge for NHS as a % of current commissioning budgets	3.1%	6.6%	5.5%	4.7%	4.6%
Assumption on input cost inflation	*2.6%*[1]	*2.9%*	*4.4%*	*3.4%*	*3.3%*

The total affordability challenge is greater in 2015/16 and 2016/17 than in other years. A key driver of this is the estimated cost of changes to pensions in 2015/16 and 2016/17, 0.7% and 1.4% of budget respectively. The assumed 0.7% pensions pressure for 2015-16 arises from the revaluation of public sector pension contributions and the assumed 1.4% pension pressure for 2016-17 arises from reforms to the state pension. These are predominately cost pressures for providers and assumed to be funded through tariff. The 1.4% in 2016-17 is however currently an estimate and in practice NHS England and Monitor will need to discuss with central government closer to the time the exact amount of funding pressure that will need to be met by the NHS and any funding arrangements to meet this pressure. The Better Care Fund will also impact on commissioner budgets in 2015/16, but this presents the NHS with an unprecedented opportunity to transform the quality of patient care outside of hospitals, preventing distressing and costly emergency hospital admissions and integrating care more closely around the needs of individual patients.

1.4 The efficiency opportunity

Over recent years, whilst productivity in the wider economy has struggled to recover from the shock of 2007/08, NHS productivity has continued to rise. This is a real achievement of which the NHS should be proud.

[1] This is a blended uplift of acute and non-acute input cost inflation, including the average impact of the CNST uplift and pensions costs. These inflation assumptions may vary from other industry sources.

But to meet the affordability challenge shown in Table 1, the sector needs to know where to look for efficiency gains. To help the NHS to plan to redesign services for patients in response to this challenge, we have assessed the evidence of where those gains might lie and we want to have an open debate about the balance of opportunity between:

- redesigning and improving patient services in **individual providers** to improve quality and efficiency, through, for example, shorter lengths of stay;
- redesigning care pathways to transform how patient care is provided across the **system** and reduce unnecessary emergency admissions, improving quality and efficiency; and
- **further measures** which commissioners and providers can undertake in their local areas to improve quality and efficiency, such as reducing inappropriate variations in how care is provided or reducing interventions which have little if any benefit to patients.

1.4.1 Improving efficiency in individual providers

There is a large body of evidence which demonstrates the scope for significant transformation in service quality and efficiency by using proven methods to increase efficiency in individual providers. But we need to be realistic about the pace at which these gains can be realised across a system as large and complex as the NHS. Work by McKinsey for Monitor[2] identified the potential scope for efficiency improvement if individual providers were able to "catch up" to existing good practice in the NHS. In addition to this, NHS providers continue to develop completely new and better ways of providing patient care. We therefore believe that there is a total opportunity for efficiency improvement in individual providers of approximately 2% per annum over the next five years. This is significantly more than the 0.4% to 1.4% underlying productivity improvement that external research[3] suggests that the NHS has traditionally delivered. This is a big ask, so Monitor, the NHS Trust Development Authority and NHS England will provide all the support we can to help providers and commissioners in the forthcoming planning round.

1.4.2 Improved efficiency across the system

Better patient care provided in the community can prevent avoidable emergency hospital admissions. Better integration of care, prevention of unplanned admissions through better chronic disease management and moving care to more cost effective settings can all have a role to play in improving the quality of care whilst reducing costs to the system as a whole. None of these ideas are new – but the Better Care Fund provides commissioners and providers with the opportunity to plan for the transformational changes which many have wanted to make for years. Work by

[2] Improvement opportunities in the NHS: Quantification and Evidence Collection, February 2013.
[3] The ONS (0.4%) and Centre for Health Economics, York (1.4%)

McKinsey for Monitor[5] suggests significant savings could be delivered by redesigning services in this way. We believe the sector must do all that it can to deliver this over the next five years, so we have made the assumption that there is an opportunity for further savings of between 1% and 2% per year across the NHS.

1.4.3 Further measures to improve efficiency in individual health economies

Even adding together the opportunities for improving efficiency in individual providers and across the system that we have identified nationally, Table 2 shows that a significant affordability challenge is likely to remain in many local health economies.

Commissioners and providers have the local knowledge and expertise to develop strategic plans to tackle this remaining challenge, according to the circumstances of their local areas. In some cases, they may identify a greater opportunity to improve efficiency in local providers or across the local NHS than these broad national assumptions. In other cases, they may identify further opportunities such as reducing inappropriate variations in how care is provided or reducing interventions which result in little or no clinical benefits to patients.

Commissioners and providers will need to work together across all three of these opportunities to improve efficiency to meet the affordability challenge.

Table 2: Meeting the local affordability challenge

	2014/15	2015/16	2016/17	2017/18	2018/19
Total affordability challenge	3.1%	6.6%	5.5%	4.7%	4.6%
Provider efficiency	2.0%	2.5%	2.0%	2.0%	2.0%
System efficiency	1.0%	2.0%	1.0%	1.0%	1.0%
Remaining challenge	**0.1%**	**2.1%**	**2.5%**	**1.7%**	**1.6%**

1.5 What does this mean for the efficiency assumptions in tariff?

As part of the annual National Tariff setting process, Monitor and NHS England agree an efficiency factor – which broadly equates to our estimate of the opportunity for efficiency improvement in individual providers. This year we have set it at 4%, which is higher than the 2% real efficiency gains we have assumed providers are likely to deliver in practice. This section explains the reason for this discrepancy.

Over the last three years, the tariff efficiency assumption has averaged 3.8%[8]. Falling margins in providers of around 0.4% p.a. suggest providers have managed to reduce costs by 3.4% p.a. at most. This broadly equates to the average delivered recurrent Cost Improvement Plan (CIP) saving of around 3.2%

However, there is a significant gap between reported CIPs of around 3.2% and external evidence that the underlying real productivity improvement across the system has traditionally only been around 0.4% to 1.4% p.a.[9] Unless provider

[8] The efficiency factor was 3.5% in 2010/11 and 4% from 2011/12.
[9] ONS and Centre for Health Economics, York

efficiency has improved very dramatically since that research was undertaken, closing the gap to balance the books is likely to have meant commissioners and providers have been moving money around the system in non-transparent or unpredictable ways. Not being able to predict income or expenditure with confidence makes it hard for either to plan.

The impact of these actions is sometimes referred to as “tariff leakage”. Whatever the source of this tariff leakage[10], it represents real money which has to be paid for from commissioner’s budgets since it is not real efficiency. Even if providers have been more successful at driving through efficiency improvements during the last few years, we believe that this tariff leakage could potentially represent around 1 to 2 percentage points of the 3.4% cost reduction although the exact figure is highly uncertain.

What we do know is that this reduces the confidence commissioners have in exactly what cost, quality and volume of patient care is being provided for local people within contracts. In the extreme, it raises the risk of providers being tempted to reduce the quality of patient care or not putting in place the right capacity to deal with winter pressures.

Moving money around might help balance the books, but it undermines planning for better patient care. Better planning is needed to deliver genuine change.

However, in the short term, as we develop a better understanding of the evidence and improve the transparency of commissioning and pricing, reducing tariff leakage may be difficult and we must account for this in the tariff efficiency factor. So until we succeed in bringing the rate of tariff leakage down nationally, or local commissioners and providers are successful in reducing it locally, providers and commissioners should plan for a tariff efficiency factor of 4% p.a. over the full five year period (as shown in Table 3). They should make sure that their response includes real efficiency improvement for individual providers of at least 2% p.a.

Table 3: expected tariff efficiency factor

	2014/15	2015/16	2016/17	2017/18	2018/19
Provider efficiency	2.0%	2.5%	2.0%	2.0%	2.0%
Estimate of leakage	2.0%	2.0%	2.0%	2.0%	2.0%
Tariff efficiency factor if leakage does not fall	4.0%	4.5%	4.0%	4.0%	4.0%

[10] Which relates to increases in the price of services and is not volume related to services or drugs and devices either within or outside the scope of tariff.

To help support better planning, Monitor, the NHS Trust Development Authority and NHS England will seek to reduce tariff leakage over the next five years, by:

- identifying and estimating the scale of leakage activities;
- introducing new oversight of payment terms with greater expectations on transparency from both providers and commissioners; and
- exploring approaches to identify and take action against non-compliance with the pricing rules.

In line with our approach to devolve greater responsibility to local organisations, we think this will help commissioners and providers focus greater attention on how they achieve a real and lasting transformation in the quality of health care received by local people and less effort on moving money around the system to demonstrate cost reductions to the centre.

Over time, as tariff leakage falls, the efficiency assumption set annually in the National Tariff by Monitor and NHS England will fall in step to reflect more closely the opportunity for efficiency improvement in individual providers in the NHS. The speed and scale of this change will depend on how quickly the volume of tariff leakage in the system is reduced.

These efficiency assumptions challenge NHS commissioners and providers to work together to both:

- take advantage of the opportunities available to deliver a greater, though achievable, increase in real efficiency in how patient care is provided than has been achieved before; and
- make a step change in the quality of strategic planning by having more open and transparent dialogue on the changes in the quality, cost and volume of care which will be provided to local people.

2 Overview of the 2014/15 APR process

2.1 Section overview

This section provides a high level overview of the APR process in 2014/15, the type of feedback Monitor intends to give, and the plan documentation that we will ask foundations trusts to provide at the end of the process. Detailed requirements are described in the following sections.

2.2 Background

The APR process is designed to identify short term risks (quality, financial and operational) and longer term risks to the sustainability of high quality services. Monitor has previously required all foundation trusts to submit a three year annual plan in June which formed the basis of a short desktop review during June and July to determine Monitor's regulatory approach for the year.

2.3 Key changes and rationale

Given the extent of the challenges outlined in our executive summary and Section 1, and the need for foundation trusts to improve planning, Monitor recognises that its plan review process also needs to be upgraded appropriately. Our main goals from the upgrade are to ensure that Monitor has greater visibility over the extent of the short and longer term challenges facing the sector, to ensure that there is robust planning across LHEs and that there are credible plans to deliver high quality services for patients on a sustainable basis.

This has led to the introduction of the following key changes which were set out in our joint letter dated 4 November 2013 (co-signed by NHS England, the NHS Trust Development Authority and the Local Government Authority):

1. Aligning assumptions and planning timetable with NHS England and the NHS Trust Development Authority, enabling better engagement and alignment across local health economies. This will include a reconciliation between provider and commissioner balances; and

2. Splitting the APR into two phases:

    a. Review of foundation trusts' operational plans including a review of the supporting two year's financial projections to 2015/16; and

    b. Review of foundation trusts' strategic plans to ensure sustainability of high quality care for patients, including a review of the supporting five years of financial projections.

2.4 Monitor's two phase review process

Monitor will seek to assess the quality of foundation trust plans through two distinct (but linked) review phases:

2.4.1 Two year operational and financial review: April – May 2014

Plan documents (two year plan narrative and supporting two year financial return) are required to be submitted to Monitor on 4 April 2014. These documents should set out how foundation trust boards intend to deliver high quality and cost-effective services for their patients over the next two years, with particular emphasis on the specific challenges posed in 2015/16.

Monitor will undertake a desktop review of plans during April and May 2014, which will seek to assess the level of short term financial, quality and operational risk to individual foundation trusts over the period 2014/15 - 2015/16 by considering:

- the strength of individual foundation trust's understanding of the challenges being faced over the next two years;
- the Trust's level of engagement with the key stakeholders within the LHE to assess the nature and scale of the challenge and plans to address the specific challenge faced in 2015/16;
- the congruence of commissioner and provider activity and revenue assumptions for 2014/15 and 2015/16 (please see 2.4.4);
- an assessment of the reasonableness of key assumptions in the plan, particularly in light of Monitor's accuracy of planning findings[11] and efficiency assumptions set out in Section 1;
- the level of planned capacity in key services compared to the likely demand over the period to 2015/16; and
- the nature and robustness of foundation trust initiatives to ensure that high quality services continue to be delivered over the next two years to 2015/16.

2.4.2 Five year strategic and sustainability review: July – September 2014

Plan documents (strategic plan and supporting five year financial return) are required to be submitted to Monitor by 30 June 2014. These documents taken together should set out how foundation trust boards intend to deliver appropriate, high quality and cost-effective services for their patients on a sustainable basis.

[11] see *Meeting the needs of patients: Improving strategic planning in NHS foundation trusts,* available at http://www.monitor.gov.uk/node/5492

Monitor will undertake a desktop review of plans during July - September 2014 to assess the level of risk to longer term sustainability of individual foundation trusts by considering:

- the outcome and trust response from the first phase of the review;
- the robustness of the strategic planning process;
- the trust's understanding of its local health economy and any likely financial gap based on its current configuration;
- the congruence of commissioner and provider activity and revenue assumptions over the coming five years;
- the strategic options, which may include transformational change to the current configuration if necessary, that the foundation trust believes are available to ensure sustainability of high quality services for patients;
- the trust's chosen schemes and initiatives that should secure the foundation trust's long-term sustainability;
- the trust's level of engagement and extent of alignment with the key stakeholders within the LHE to agree key initiatives; and
- the foundation trust board's self-assessment of the trust's longer term sustainability and the key points supporting its conclusions.

2.4.3 Financial returns

There is a single five year financial template which underpins both phases of the annual plan review. Monitor requires year one and two to be completed for the first submission (4 April 2014) and then the subsequent three years for the second submission (30 June 2014).

The operational plan will, because of the required submission date, be developed before a final year end financial position is known. Therefore foundation trusts should use a projected year end outturn for 2013/14 based on the most up-to date and relevant information available.

The financial information in the first two years can only be amended in the later June submission by exception where there is a material impact on the financial projections. Foundation trusts should contact their relationship manager at Monitor should they feel an amendment to the first two years is required, but the expectation is that this will be limited to exceptional circumstances only. While we cannot state all the reasons that may be accepted, these could include a material event or decision occurring after the first submission such as a transaction becoming likely or major service reconfiguration being agreed with commissioners.

Foundation trusts will be required to submit bridging analysis should any resubmission be made.

2.4.4 Reconciliation

Plans need to reflect local priorities for patients and we expect commissioners and providers to cooperate in planning and to be able to explain any differences in their plans.

It is expected that providers' plans will be aligned with those of the wider local health economy. In order to test the alignment of key assumptions Monitor, NHS England, and the NHS Trust Development Authority will reconcile provider and commissioner income and activity plans for both the two and five year review phases.

The outputs of the reconciliation will be shared between the regional teams of Monitor, NHS England and NHS Trust Development Authority. Every step will be taken not to prejudice the position of any trust or commissioner and no information will be shared at individual organisation level without first contacting the appropriate party. However, where significant divergences are identified, this is likely to require further discussion with the parties involved.

2.4.5 Risk based approach

Monitor will take a risk based approach to both reviews.

2.5 Feedback

Monitor will provide feedback to foundation trusts setting out its assessment of individual plans after each phase of the review (initial feedback in May 2014 and final feedback in October 2014). Where necessary, we will take appropriate regulatory action, which could include but is not limited to:

- **Enhanced Scrutiny.** Where foundation trust plans demonstrate potential weakness or may be insufficient to address the nature of challenge facing the foundation trust, we may require additional assurance over whole or part of the plan. The type of required assurance will be bespoke but could well include a relationship visit to discuss the plan in more detail or a request for additional supporting information/explanation.

- **Re-submission.** Where foundation trust plans demonstrate significant weakness or are clearly insufficient to address the nature of challenge facing the foundation trust, we may require a resubmission of the plan and request external assurance over the robustness of any resubmission. Reasons for re-submission may include overly optimistic financial planning, plans that are significantly divergent with commissioner assumptions, material changes that become apparent after submission or apparent weakness in the trust's approach to planning.

- **Investigation.** Where foundation trust plans are considered so weak, or highlight a level of unmitigated risk which could indicate a potential licence breach, Monitor may open an investigation under the Risk assessment framework. Reasons for opening an investigation might include a significant risk to any of financial stability, quality or significant longer term sustainability.

2.6 Publications

Monitor and foundation trusts have a duty of candour and transparency. Accordingly, Monitor intends to publish foundation trusts' two year operational plans and strategic plans, whilst ensuring that commercially sensitive information is not made public.

Monitor intends to achieve this through publishing the following:

- the body of the two year operating plan excluding any commercially sensitive information, which foundation trusts should include in the annexes to their operating plan as in previous years; and
- a summarised version of the strategic plan.

Monitor will therefore require foundation trusts to prepare a separate summarised version of the strategic plan, which can be published at the end of the annual review process. This summary must be consistent with each foundation trust's underlying detailed submission but is required to be a publishable separate document. While the format of which is a decision for each individual foundation trust this should cover as a minimum a summary of the market analysis and context, strategic options, plans and supporting initiatives and an overview of the financial projections.

3 Practical guidance on APR 2014/15

3.1 Section overview

This section sets out the key submissions required for the annual plan process and the matters which are pertinent for both phases of Monitor's APR (engagement with the local health economy and the Better Care Fund).

Sections 4 and 5 respectively provide detailed guidance on both the operational plan and the strategic plan.

Section 6 concludes with a number of other matters which should be borne in mind when completing the annual plan submissions.

3.2 Key submissions

APR 2014/15 comprises two sets of submissions (one for each phase of the review). Both should be returned via the MARS portal (guidance on uploading your template can be found here):

1. On or before 4 April 2014 foundation trusts should submit the financial template with year one and two completed and an accompanying two year operational plan (see section 4); and
2. On or before 30 June 2014 foundation trusts should submit a completed five year financial template (with the final three years completed), an accompanying strategic plan (see section 5) and a publishable summary of the plan (see section 2.6).

The plan templates can be downloaded from the 2014/15 APR website and the financial template will be made available to foundation trusts on 7 January 2014 via the MARS portal (technical guidance on the financial template will also be made available on the 2014/15 APR website on this date).

Set out below is a summary of the two submissions:

	Operating and financial phase	Strategic and sustainability phase
Submission date	4 April 2014	30 June 2014
Financial information (2.4.3)	Two years	Five years
Monitor led reconciliation with commissioners (2.4.4)	Yes	Yes
Monitors key review objective	Understand risks to short term stability and resilience and the sufficiency of the trust response.	Understand the key risks to longer term sustainability and the sufficiency of the trust strategic response and underlying initiatives.
Monitor feedback (2.5)	May 2014	October 2014

3.3 Matters pertinent to both reviews

Both phases of Monitor's review will seek to understand the extent to which foundation trusts have engaged with key stakeholders within the LHE to develop their plans. This will necessarily require a discussion about the challenges arising from the introduction of the Better Care Fund and foundation trusts' responses to this.

3.3.1 Engagement with LHE

Monitor is working closely with both NHS England and the NHS Trust Development Authority to ensure plans lead to sustainability and are deliverable across local health economies.

We are therefore calling for an iterative process of engagement between foundation trusts and their LHE partners. While it is the responsibility of each foundation trust and its LHE partners to define its own process for engagement, Monitor and our partners consider this engagement to be central to the development of a robust strategic plan.

In doing so, providers and commissioners should be mindful of competition law. As a general rule, discussions between providers about their future plans are more likely to give rise to concerns than discussions between providers and commissioners. It is acceptable though for the relevant stakeholders in an area (including providers, commissioners, clinicians and others) to talk at a high level about desired outcomes

and general transformational changes that may be needed to address health care economy challenges.

3.3.2 Better Care Fund

The Better Care Fund (formerly called the Integrated Transformation Fund) plan requires local areas to formulate a joint plan for integrated health and social care and to set out how their single pooled Better Care Fund budget will be implemented to facilitate closer working between health and social care services.

While joint plans for the Better Care Fund should be approved through the relevant local Health and Wellbeing Board and should be agreed between all local clinical commissioning groups (CCGs) and the Upper Tier Local Authority, health and social care providers should also be closely involved in developing the plan.

Both phases of Monitor's annual plan review will seek to understand how individual foundation trusts are addressing the particular challenges posed by the Better Care Fund particularly in 2015/16.

4 Operational plan

4.1 Overview

The operational plan should set out how foundation trusts intend to deliver appropriate, high quality and cost-effective services for patients over the next two years in light of the particular challenges facing the sector e.g. the Better Care Fund.

Foundation trusts will need to develop operational plans that outline projected activity, pressures and performance over the next two years to 2015/16 that ensure that services to patients remain high quality and resilient.

4.2 Publication of the operational plan

Foundation trusts should be aware that, as part of Monitor's duty of transparency, Monitor will publish the entire operational plan except for confidential annexes at the back.

4.3 Strategic and operational planning

Monitor recognises that, in a business as usual situation, a foundation trust would usually expect to develop its strategic plan and high level long term financial projections before translating this into a detailed short term operational plan.

In 2014/15 however, in order to align planning timetables across the system and to allow foundation trusts additional time to fully develop their strategic plans in response to the enclosed guidance, it has not been possible to order our reviews in this sequence.

The operational plan should, however, be linked to the broader strategy but does not need to set out the full evidence base and analysis that will support the strategic plan.

4.4 Format of operational plan commentaries

Monitor expects that a good two year operational plan should cover (but not necessarily be limited to) the following areas (in separate sections):

1. Executive summary
2. Operational plan
    a. The short term challenge
    b. Quality plans
    c. Operational requirements and capacity
    d. Productivity, efficiency and CIPs

e. Financial plan

3. Appendices

As a guide, we expect plans to be a maximum of 30 pages in length. Please note that this guidance is not prescriptive and foundation trusts should make their own judgement about the content of each section.

4.5 Executive summary

Monitor expects that the operational plan will include an executive summary outlining the key elements, including a summary of key financial data.

4.6 Operational plan

This section should set out how the foundation trust plans to deliver high quality services over the next two years in light of the key objectives within the foundation trust's strategic plan. We would expect the trust to comment on the following sections:

4.6.1 The short term challenge

Foundation trusts should work with LHE partners to define the extent of the short term challenges within the LHE and should use this section to summarise the extent of the agreed likely two year challenge.

4.6.2 Quality plans

Foundation trusts should outline their quality plans to meet the short term challenges it faces (both internally and within the LHE) by considering the following:

- national and local commissioning priorities;
- the foundation trust's quality goals, as defined by its quality strategy and quality account;
- an outline of existing quality concerns (CQC or other parties) and plans to address them;
- the key quality risks inherent in the plan and how these will be managed;
- an overview of how the board derives assurance on the quality of its services and safeguards patient safety (foundation trusts may find Monitor's quality governance framework[12] helpful for appraising quality arrangements);
- what the quality plans mean for the foundation trust's workforce;

[12] Available at www.monitor.gov.uk/home/news-events-publications/our-publications/browse-category/guidance-foundation-trusts/mandatory-

- the foundation trust's response to Francis, Berwick and Keogh;
- risks to delivery of key plans; and
- contingency that is built into the plan.

4.6.3 Operational requirements and capacity

Foundation trusts should outline their assessment of the activity and demand pressures and the inputs needed to address these over the next two years. This section should cover:

- an assessment of the inputs needed (such as physical capacity, workforce and beds) over the next two years, based on the trusts understanding of its expected activity levels; and
- an analysis of the key risks and how the trust will be able to adjust its inputs to match different levels of demand.

4.6.4 Productivity, efficiency and CIPs

Foundation trusts should define a robust programme of schemes which can improve or maintain quality whilst driving up productivity. Foundation trusts should therefore describe their CIP programme and make clear the difference and articulation between those CIPs which are incremental and efficiency driven ("traditional CIPs") and those which are transformational in nature and involve new ways of working ("transformational CIPs").

Monitor is particularly keen to understand the state of development of the transformational schemes being planned. Foundations trusts should therefore detail the nature of the planned transformation, the extent to which transformational schemes are already being implemented and the future schemes which are critical to the delivery of the strategic plan.

4.7 Supporting financial information

Two years of supporting financial projections are required to support the operational plan.

Foundation trusts should prepare the projections based on an assessment of the quality priorities, operating requirements and the productivity and efficiency initiatives in the plan and translate them into a financial projection from 2014/15 to 2015/16.

Foundations trusts should provide financial commentary on at least the following areas:

- income, and the extent of its alignment with commissioner intentions/plans;
- costs;

- capital plans;
- liquidity; and
- risk ratings.

Please note also that in 2014/15 we have introduced into the financial template the ability to model potential downside risks and mitigations to assist foundation trusts and Monitor to quantify the potential risks to plans and mitigations that could be used to offset these risks. We expect trusts to identify potential downside risks and mitigations as part of their planning activities and comment on their inclusion in the APR.

4.8 Appendices

Where foundation trusts have commercially sensitive or confidential matters that they do not want to include in the main published section of the operational plan, they may include them in the appendices.

5 Strategic plan

5.1 Overview

The strategic plan is expected to be a comprehensive summary of each foundation trust's strategy, the analysis which underpins this and the plans to implement them. It should therefore, set out in detail an assessment of the future challenges facing the LHE and the foundation trust, the options available to address the identified challenges and ultimately its key service line strategic plans.

Monitor expects strategic plans to demonstrate the extent of each foundation trust's ambition for patients. It should outline the practical ways in which key services will be transformed to lead to better quality care at a reduced cost and the investment that is required to support this transformation. It could also, for example, set out where key service lines are no longer sustainable and if the trust is proposing to take steps to divest or transfer services for the benefit of patients.

5.2 Publication of the strategic plan

Monitor recognises that the strategic plan is a confidential document and will necessarily contain commercially sensitive information. Monitor therefore does not intend to publish the strategic plan.

Notwithstanding this, Monitor has a duty of transparency and will require a summarised version of the plan to be submitted along side the strategic plan which can be published.

While the format of which is a decision for each individual foundation trust this should cover as a minimum a summary of the market analysis and context, strategic options, plans and supporting initiatives and an overview of the financial projections.

5.3 Self assessment tool

In addition to the guidance included in this section, further information on the hallmarks of high quality strategic planning can be found in Section 7, where we have included a self-assessment tool to help support strategic planning at foundation trusts. We strongly recommend foundation trusts use this tool in their APR process for 2014/15.

5.4 Format of strategic plan

Monitor expects that a good strategic plan should cover the following areas:

1. Declaration of sustainability
2. Market analysis and context
3. Risk to sustainability and strategic options

4. Strategic Plans

As a guide we would expect strategic plans to be a maximum of 50 pages in length and the publishable summary to be a maximum of 20 pages.

Please note that this guidance is not meant to be prescriptive. Foundation trusts should make their own judgements about the content of each section.

5.5 Declaration on sustainability

Monitor requires all foundation trusts to declare whether or not the foundation trust's strategic plans will ensure the sustainability of the foundation trust over the coming five years on a clinical, operational and financial basis.

In this section foundation trusts should summarise on a single page, the key evidence base and critical schemes upon which the foundation trust is relying to ensure the sustainability of high quality services.

5.6 Market analysis and context

Monitor expects strategic plans to be based on a detailed assessment of the wider LHE context. This requires foundation trusts need to engage with all key stakeholders within the LHE at each stage of the development of the strategic plan.

Foundation trusts should therefore set out their assessment of the material challenges facing the wider LHE and the analytical evidence base which underpins this assessment. This may include for example, a high level assessment of the affordability challenge facing the LHE over the coming years, or an assessment of the need for more activity to be provided in primary care.

Monitor would expect the analysis underpinning the market analysis and context section to include as a minimum:

- a healthcare needs assessment, based on demographic and healthcare trends;
- a capacity analysis, based on the sufficiency of estates, beds and staff to meet healthcare needs;
- a funding analysis, based on historic trends and likely commissioning intentions;
- a competitor analysis, based on an assessment of the trust's key areas of strength and weakness relative to its key competitors;
- a SWOT analysis, to identify both the opportunities that can be exploited and the challenges that need to be addressed;

- forecasted activity and revenue in a 'do nothing' scenario and resulting financial gap across the LHE; and
- the extent of alignment of findings from these analyses with comparable intelligence from LHE partners.

An activity guide on the demand forecasting and competitor analysis is included in a recent report by PwC commissioned by Monitor[13], which foundation trusts may find useful.

5.7 Risk to sustainability and strategic options

After completing the outward facing market review, foundation trusts should consider the likely impact of the identified external challenges on each of its key service lines and the resulting sustainability risk.

This assessment should lead to a consideration of the range of strategic options available (e.g. grow, shrink, merge, collaborate or transform) to address the identified risk to sustainability.

Foundation trusts should set out the analysis supporting its view of the risk to sustainability across its key service lines and an assessment of which available strategic options are being rejected and why. In addition a summary of the key reasons for adopting the chosen strategic option(s) should be provided.

Monitor would expect the options analysis to include as a minimum:

- an assessment of the likely impact of chosen options on key service lines;
- an assessment of the likely impact of chosen options on the broader LHE; and
- an assessment of the LHE support required and alignment with the proposed options.

[13] see *Technical Annex to the Foundation Trust Strategic Planning Assessment Research Findings*. It is recommended that this is read in conjunction with *Foundation Trust Strategic Planning Assessment - Research Findings Report*. Both documents are available at http://www.monitor-nhsft.gov.uk/information-nhs-foundation-trusts/planning-and-reporting-processes/annual-planning

5.8 Strategic Plans

Based on the analysis performed, foundation trusts should summarise its prioritised set of service line initiatives and outline the following:

- key milestones, resourcing requirements, dependencies and risk mitigations;
- communication plan for key stakeholders, including staff and the LHE; and
- the processes the foundation trust has in place to monitor performance against the strategic plan and how plans will be adapted and amended for unexpected future challenges.

An activity guide on initiative prioritisation is included in a recent report by PwC commissioned by Monitor[14] which foundation trusts may find useful.

5.9 Supporting financial information

Five years of supporting financial projections are required to support the strategic plan. Years one and two of the financial return will already be fixed through the operating plan submission, review and feedback process completed during April and May 2014.

[14] see *Technical Annex to the Foundation Trust Strategic Planning Assessment Research Findings*. It is recommended that this is read in conjunction with *Foundation Trust Strategic Planning Assessment - Research Findings Report*. Both documents are available at http://www.monitor-nhsft.gov.uk/information-nhs-foundation-trusts/planning-and-reporting-processes/annual-planning

6 Other matters to consider

6.1.1 Overview

The section sets out a number of other matters which should be considered when completing annual plans.

6.1.2 Capital planning and capital expenditure

Identifying the right capital expenditure to support strategic plans is one of the most important decisions a foundation trust will take. Monitor therefore expects foundation trusts to ensure that the right capital priorities are identified and supported by deliverable capital expenditure plans.

Historically however, foundation trusts have produced annual plans containing ambitious capital expenditure goals and then gone on to finish the year with a sizeable underspend. This culminated in an underspend of more than £840m against a plan of £2.5bn in 2012/13.

Unrealistic capital planning in foundation trusts affects the entire capital budget for the Department of Health (DH). It limits the availability of capital to other NHS bodies and also prevents the DH from making capital available to all NHS bodies, including foundation trusts, through centrally funded capital spending schemes.

It is therefore imperative that foundation trusts forecast their capital plans within the financial template as accurately as possible. This is particularly important in the two year APR phase, where capital plans and resulting cash flows are input on a quarterly basis.

In December 2013 Monitor will be requesting five year capital forecasts from all foundation trusts on behalf of the DH. These will need to be submitted in early January 2014.

These five year capital forecasts should form the basis of the APR financial template capital expenditure inputs for both the two year and five year submissions (albeit we acknowledge that differences may arise as plans are developed). Any significant variances between these two submissions will require explanation as part of the CapEx worksheet narrative for each scheme.

As usual, those foundation trusts subsequently triggering the *Risk Assessment Framework* (RAF) requirement for a reforecast will be expected to complete the capital expenditure reforecast template.

Foundation trusts should also outline their IT procurement plans as the national IT agreements, such as local service provider (LSP) contracts with BT and CSC, come to an end. The CSC LSP contract covering the North, Midlands and East ends in July 2016 (with a limited number of exceptions) and the BT LSP contract covering London and the South of England ends in October 2015.

6.1.3 Units of planning

When framing their strategic plans, foundation trusts should be aware that NHS England has asked for CCGs, in discussion with area teams, local government and providers to form a “unit of planning” for developing joint commissioner strategic plans. Each unit of planning should have the following characteristics:

- each CCG belongs to one unit only;
- the unit is locally agreed and has clear clinical ownership and leadership;
- it is based on existing health economies that reflect patient flows across Health and Wellbeing Board areas and local provider footprints;
- it has sufficient scale to deliver clinical improvements across the whole geography covered by the unit;
- it enables the pooling of resources to reduce the risk associated with large investments;
- it does not cut across existing locally agreed collaboration agreements; and
- engagement has been secured from local authorities.

It should be noted however that a provider may be part of more than one unit of planning.

6.1.4 Plan assurance

Foundation trust boards have a pivotal role in testing and assuring their plans within the context of their local health economies.

The table overleaf shows the lead responsibilities for plan production and assurance across local health economies.

Strategic plan produced by	Engaged	Triangulation	Formal assurance
Responsible for driving development, completing and submitting plan	*Contribute to plan development*	*Responsible for ensuring that their work triangulates with plan*	*Responsible for providing formal assurance of plan*
Unit of Planning	• Patients • CCG • Provider • HWB • Local Authority • NHS England Area Team	• CCG • Provider • HWB • Local Authority • Area Team	• NHS England Regional Team
CCG	• Provider • Local Authority (contracts with comm./SC providers)	• Provider • HWB • Local Authority • Unit of Planning	• NHS England Area Team
Provider	• CCG • Local Authority (depending on provider type)	• CCG • HWB • Local Authority • NHS England Area Team • Unit of Planning	• Monitor • NHS Trust Development Agency
HWB (Better care fund)	• Local Authority • NHS England Area Team • PHE • Monitor • NHS Trust Development Agency	• CCGs • Provider • Units of Planning	• Ministers • NHS England Area Team • LGA
Direct Commissioning (NHS England Area Team)	• NHS England Regional Team • Provider	• Provider	• NHS England Regional Team

7 Self assessment toolkit

7.1 Key elements of an effective strategic planning exercise

Independent research commissioned by Monitor has concluded that an effective strategic planning exercise (that identifies risks to sustainability and ensures that a provider organisation is doing all that it can to deliver high quality care for patients), requires the following three steps:

- **Step 1 –** the provider must put in place strategic **planning processes** that ensures that an engaged board – and an executive team that can draw on sufficient skilled supporting resource – are undertaking necessary planning actions at the right times;
- **Step 2 -** through that planning process, the provider must develop and refresh a strategic **plan with content** that is based on accurate and correctly-analysed inputs, which establishes an evidence-based sustainable vision and supporting initiatives to guide the organisation, and which explains how those initiatives will be delivered; and
- **Step 3 -** ensure that the **delivery** of the initiatives is monitored, and that staff, patients and other stakeholders understand why transformation is necessary and what part they must play in delivering it.

The independent research report[15] states that if a provider organisation is failing to complete any of these three steps, it is unlikely to be able to adapt to the challenging conditions facing the NHS. The report also states that a significant number of foundation trusts are at present failing to complete these steps, or completing them in a partial and unstructured way. This situation must change if the provider sector is to position itself to meet the future needs of patients sustainably, through transformational change where necessary.

Monitor has been and will continue to work with providers to identify gaps between current planning performance and the quality of planning needed. However, the primary responsibility for assessing the quality of planning being carried out by a provider, and for making any necessary improvements, lies with the board and executive team of that organisation.

[15] see *Foundation Trust Strategic Planning Assessment - Research Findings Report* available at http://www.monitor-nhsft.gov.uk/information-nhs-foundation-trusts/planning-and-reporting-processes/annual-planning

7.2 Evaluating the quality of provider strategic planning using an assessment tool

To support boards and executive teams in discharging that responsibility, an assessment tool has been developed that can be used to rapidly evaluate the quality of the strategic planning being undertaken. Using a series of structured questions, the assessment tool tests whether a provider is completing the three steps described above fully and rigorously. The tool identifies gaps in provider planning processes that the board and executive team can then fill, and it also identifies weaknesses in the plans produced by the provider that must be addressed.

The board and executive team at a provider can use the assessment tool in one of three ways. They can:

- work through an assessment using the tool collectively during a board session or meeting;
- empower an individual staff member or a group of staff to work through an assessment using the tool, and then have the board and executive team review and debate the findings; or
- identify a third party (eg, an expert from another provider organisation, or an advisory group) to work through an assessment using the tool, and then have the board and executive team review and debate the findings.

7.3 The assessment tool

To establish whether a provider is completing the three steps, the assessment tool requires the provider to discuss whether it can answer ‘yes’ to a set of key questions. If it cannot answer yes to some of the questions asked, or evidence cannot be found to support an answer, then it is unlikely that the provider is undertaking high-quality strategic planning. In that instance, the provider should seek to ensure that it is taking action to address the areas in which weaknesses have been identified.

The key questions are:

Step 1: evaluation of planning processes	**To show that it has a strategic planning process in place that makes sure its board and executive team take the necessary planning actions at the right times, a provider must be able to answer "yes" to the following questions:**
	1. Has the organisation put in place a structured strategic planning process to guarantee that the board and executive team regularly spend time discussing strategic issues?
	2. Do the board and executive team have strategic planning backgrounds and skills?
	3. Do the board and executive team have an identified, responsible and skilled supporting staff to draw on when they carry out strategic planning?
	4. Do the board and executive team have regular strategy discussions with a range of local health economy stakeholders (eg, commissioners and other providers) and understand their perspectives?

Step 2: evaluation of plan content	**To show that they have developed and refreshed a five to ten year strategic plan with content based on accurate and correctly analysed inputs, a provider must be able to answer "yes" to the following questions:**
	1. Has the organisation quantified the risks to its clinical and financial sustainability and developed transformation plans by drawing on accurate inputs, including internal performance information and external market data, which it has analysed and presented correctly?
	2. Can the board and executive team declare that their organisation will be financially and clinically sustainable according to current regulatory standards in one, three, five and ten years, if it keeps its current configuration and service profile?
	3. Has the organisation identified a vision that establishes why and how the organisation should change or transform, if necessary, in order to deliver high-quality and efficient patient care and address any sustainability gap identified?
	4. Is that vision supported by plans for initiatives that can be shown to address any sustainability gap identified?

Step 3: evaluation of plan delivery	**To show that they monitor delivery of their strategic initiatives, a provider must be able to answer "yes" to the following questions:**
	1. Does the organisation have detailed delivery plans for each of its strategic initiatives that lay out milestones, resource requirements, dependencies and risk mitigations?
	2. Does the trust have skilled staff to draw on to implement those delivery plans?
	3. Are trust staff, patients and other stakeholders able to explain the ambition and initiatives of the provider when asked, and do they know what they must do to deliver both?
	4. Are strategic plans reviewed and updated yearly to keep them relevant?

7.4 Detailed hallmarks

To make sure all providers apply a consistent standard when they answer these questions, they should refer to the hallmarks of high-quality strategic planning set out below. Providers can use these hallmarks to work out whether they can answer "yes" to the questions above as follows:

- Providers that display most of the positive hallmarks relevant to each question are likely to display the required quality of strategic planning in that area and so be able to answer "yes" to that question;
- Providers that show only some of the hallmarks cannot answer "yes". They have further work to do before they reach the minimum quality of strategic planning in that area; and
- Providers that show few of or none of the hallmarks have serious deficiencies in the quality of their strategic planning and cannot answer "yes". They must make addressing those deficiencies a priority.

Step 1 – Questions and Hallmarks

Step 1	**1. Has the organisation put in place a structured strategic planning process to guarantee that the board and executive team regularly spend time discussing strategic issues at the correct point in the trust calendar?**
	Relevant hallmarks of high-quality strategic planning
	• The board and the executive team are involved in planning, developing and drafting the 5-10 year strategic plan for the organisation and the annual updates required as part of Monitor's APR process. • The organisation has a planning calendar showing (a) the trust's medium and long-term strategy development milestones (eg, dates for developing and refreshing five and ten-year strategic plans), (b) annual milestones (eg, dates for developing annual plan and refreshing strategic plan) and (c) regular milestones (eg, dates for strategic discussions at board and executive meetings, dates for engagement sessions with strategic partners). • The board has a standing strategy and planning committee, and the executive team has a strategy and planning committee or other relevant forum. • The board and relevant executive committees have regular slots at public and private meetings to discuss strategic issues and to monitor progress against the strategic plan. • Board minutes show the extent of the strategic discussion held and also show that actions resulting from those discussions are taken within agreed time limits. • The board and executive team hold strategic planning sessions of at least half a day and at least twice a year to identify medium- and long-term challenges to their plans and to discuss market developments. • The organisation keeps a log of high priority and highly challenging risks to sustainability, which the board and relevant executive committees review regularly.

Step 1	**2. Do the board and executive team have strategic planning backgrounds and skills?**
	Relevant hallmarks of high-quality strategic planning
	• The board includes at least two members with a background in strategy development, commercial development, business planning or organisational development in the public or private sector. • The executive team includes a head of strategy or equivalent board-level member who has a background in strategy development in the public or private sector. • The board and executive team always deploy qualitative and quantitative information (eg, market profiling information, information on national and local commissioning plans) when discussing strategic options. • The board and executive team include a review of their strategic planning performance in all board capability reviews and act on any development points that review identifies. • The board and executive team engage quarterly with external experts (including analysts and commentators) to gather new insights and hear external challenges to their views.

Step 1	**3. Do the board and executive team have an identified, responsible and skilled supporting staff to draw on when they carry out strategic planning?**
	Relevant hallmarks of high-quality strategic planning
	• In addition to board and executive capacity, there are at least two skilled fulltime equivalent (FTE) staff dedicated to strategic planning and commercial development (see Appendix B in Technical Annex to the Foundation Trust Strategic Planning Assessment Research Findings Report, for information on skill profiles). • At least one of these two dedicated FTEs has a background in strategy development, commercial development or business planning. • The supporting staff report directly to nominated board and executive directors, and meet at least monthly with service line leads and clinical leads to discuss strategic issues.

Step 1	**4. Do the board and executive team have regular and frank strategy discussions with a range of LHE stakeholders (eg, commissioners and other providers) and understand their perspectives?**
	Relevant hallmarks of high-quality strategic planning
	• Board members and executives at various levels (eg, CEO, COO, service line leads) regularly meet their commissioning counterparts and other stakeholders to discuss health economy strategy in general and particular strategic issues. • Board members and executives attend and contribute to local strategy discussion forums (eg, health economy-wide planning meetings, joint strategic needs assessment development meetings, ad hoc strategy forums). • Provider representatives are involved in developing and reviewing commissioning strategies and the strategies of other partner organisations, and vice versa. • Board members and executives can explain concisely the areas of congruence and areas of tension between the strategic intentions of their organisation and those of commissioners or other stakeholders (eg, Health and Wellbeing Boards, Overview and Scrutiny Committees). • Feedback received from stakeholders demonstrates that they characterise their relationship with the provider as strong and productive, with an open discussion of views at all levels.

Step 2 – Questions and Hallmarks

Step 2	**1. Has the organisation quantified the risks to its clinical and financial sustainability and developed transformation plans by drawing on accurate inputs, including internal performance information and external market data, which it has analysed and presented correctly?**
	Relevant hallmarks of high-quality strategic planning
	• Strategy teams gather and analyse quantitative evidence related to key planning inputs and use supporting qualitative evidence. • The provider draws on those inputs to generate and maintain three, five and ten-year forecast assumptions about the development of key business factors including funding levels, tariff, demographics and demand, competitor intentions, clinical standards and guidance, and commissioner intentions. • The provider also gains insight into what local patients, carers and other stakeholders require of services. The provider should base this on regularly-updated survey and patient outreach work, and include information on patient preferences for how the organisation should transform and develop. • Staff update those forecast assumptions both when new information is identified and on a rolling annual basis to ensure that they remain accurate. • Staff test those forecast assumptions with reference to comparable benchmarks (eg, assumptions made in other provider strategic plans, assumptions included in commissioning strategies). When they identify areas of difference, they analyse and understand causes. • The provider also maintains its insight into its performance by gathering and analysing internal information such as service line reporting activity, profitability data and activity forecasts. • Those forecast assumptions directly inform trust work on strategic planning and feed into long-term financial models, Monitor APR submissions, clinical and commercial strategies and long-term strategic plans.

Step 2	**2. Can the board and executive team declare that their organisation will be financially and clinically sustainable according to current regulatory standards in one, three, five and ten years, if it keeps its current configuration and service profile?**

	Relevant hallmarks of high-quality strategic planning
	• The board and executive team review clinical and financial sustainability quarterly and determine whether they can declare that the provider will be sustainable in one, three, five and ten years (a) in its current configuration and (b) if they implement planned transformation and development plans and deliver modelled "base case" returns. • They base their assessment of sustainability on current regulatory standards (eg, Monitor risk assessment framework criteria). • The organisation has one, three, five and ten year strategic plans that illustrate the predicted sustainability position at each of those points. The plans should include forecasts of financial factors (eg, revenue, margin, surplus, cash flow, PFI obligations) and should also include forecasts of clinical viability (eg, staffing shortages, minimum volume problems, excess activity etc).

	3. Has the organisation identified a vision that establishes why and how the organisation should change or transform, if necessary, to deliver high quality and efficient patient care and address any sustainability gap identified?
	Relevant hallmarks of high-quality strategic planning
Step 2	• The organisation has a vision that explains how, at a high level, it will address any sustainability gap it identifies. This vision should be a direct response to the organisation's evidence-based sustainability assessment. • If the vision, when implemented, will not completely close the sustainability gap, then the organisation should acknowledge and explain the remaining gap. • The organisation demonstrates in its plan documents that it considers a broad range of options for becoming sustainable using quantitative and qualitative assessment criteria. • The organisation demonstrates in its plan documents that its vision for becoming sustainable is compatible with local commissioners' intentions and national policy developments, or states clearly why it feels it is appropriate for the organisation to choose an alternative direction. • The vision explains how patients will benefit from the transformation proposed, including considerations of quality, safety, efficiency and access.

Step 2	**4. Is that vision supported by plans for initiatives** that **can be shown to address any sustainability gap identified?**
	Relevant hallmarks of high-quality strategic planning
	• The transformational vision is supported by plans for initiatives that the organisation must undertake to achieve it (eg, service launches or closures, care model transformations, site and workforce developments, etc.) • Those initiative plans include modelled forecasts of financial contribution or clinical impact over the plan period. Those forecasts must be evidence-based and cautious. They should model potential impact in line with Monitor standards of financial forecasting, clinical performance benchmarks and workforce benchmarks. • The financial contribution and clinical impact of all the initiatives should be enough to close the sustainability gap. If they do not, the organisation should acknowledge and explain the gap.

Step 3 – Questions and Hallmarks

Step 3	**1. Does the trust have detailed delivery plans for each of its strategic initiatives that lay out milestones, resource requirements, dependencies and risk mitigations?**
	Relevant hallmarks of high-quality strategic planning
	• For each initiative, the organisation has a detailed delivery plan including (a) a timeline for delivery with measurable milestones and metrics against which to assess progress, (b) an evaluation of resource and skills requirements and how those requirements will be met, (c) an identified responsible board-level sponsor, and (d) a risk log detailing potential delivery risks and mitigating actions. • The organisation has mapped the dependencies between each initiative and all the other initiatives, so that potential knock-on risks are identified. • For each initiative, the organisation has developed a stakeholder map to identify (a) the inputs required from key stakeholders both within and outside the organisation, and (b) the broader group of stakeholders who must be engaged with or informed to ensure successful delivery. • The organisation reviews performance of their plan for each initiative and updates the resource requirements and risk log every month.

	• Regular reports are presented to the board or relevant committees on initiative progress.

Step 3	**2. Does the trust have skilled staff to implement those delivery plans?**
	Relevant hallmarks of high-quality strategic planning
	• The organisation reviews quarterly the total staffing requirements (FTE staffing levels and skills mix) to deliver each initiative individually, and all of the strategic initiatives supporting the vision collectively. The review should include both members of strategic planning teams and the clinical and service-level staff needed to deliver the initiatives. • The organisation has a staffing capacity and skills development plan that it updates quarterly, based on those reviews of initiative staffing. The plan monitors whether there will be enough of the right resources and skills and shows how any shortages in either will be addressed.

Step 3	**3. Are trust staff, patients and other stakeholders able to explain the ambition and initiatives of the provider when asked, and do they know what they must do to deliver both?**
	Relevant hallmarks of high-quality strategic planning
	• The ambition of the organisation has been communicated to staff in clearly-written documents and verbal briefings, and staff can explain the ambition when asked. • Staff are briefed on their responsibilities for delivering the ambition and strategic initiatives, and can clearly explain those responsibilities when asked. • Staff have incentives for delivering the initiatives, with achievement targets built into their objectives. • LHE stakeholders, including commissioners, can explain the ambition of the organisation when asked.

Step 3	**4. Are strategic plans reviewed and updated yearly to keep them relevant?**
	Relevant hallmarks of high-quality strategic planning
	• The board and executive team review the strategic plans of the organisation once a year to ensure that they are still based on accurate and up-to-date inputs, and fully reflect developments in the trust's internal performance and external environment.

Monitor

Making the health sector work for patients

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